AUSTRALIA IN THE WAR OF 1939-1945

SERIES FOUR

CIVIL

VOLUME IV

WAR ECONOMY, 1942-1945

AUSTRALIA IN THE WAR OF 1939-1945

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WAR ECONOMY
1942 - 1945

by

S. J. BUTLIN and C. B. SCHEDVIN

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PREFACE

THE structure of this volume like that of its predecessor is a compromise between clarity and chronology. For Australia the war from early 1942 on had two clearly defined phases: 1942 was the year of maximum danger when invasion and defeat seemed possible, even, to the fainthearted, likely and the conversion to a full war economy was pursued helter-skelter. By early 1943 it was being recognised that the conversion was too complete and the favourable fortunes of war implied a substantial degree of reversal. The prospect of eventual peace was reinforced in 1944 and 1945 by the constraints on Australia's warlike activity imposed by Allied and especially American strategic planning, so that the theme of post-war reconstruction at home and internationally came to bulk large.

Accordingly, roughly the first half of the volume is concerned with the first phase, from the entry of Japan into the war up to the early months of 1943. Since the story cannot advance on all fronts simultaneously there is a series of chapters on particular topics, the order of which is largely dictated by the limitations on pursuing any one of these topics far without making the reader aware of what was going on at the same time in other fields. Generally, topics are carried forward to varying dates in the first half of 1943 but in some instances later parts of the story are summarily recorded to avoid interrupting later narratives by reverting to minor sequels to what had been important developments.

Chapter 13 surveys briefly the achievements of 1942 and from the standpoint of mid-1943 looks ahead as a bridge to the second part of the volume which broadly follows the same pattern as the first. Reconstruction themes are not pursued beyond the end of hostilities except to the extent necessary to complete the wartime story; the volume is concerned with war and not with what happened after.

Broadly, S. J. Butlin has been responsible for the first half of the volume and C. B. Schedvin for the second, but each has contributed pieces to the other and drafts have been discussed between us so that no specific point can be safely attributed to one of us alone.

One major difficulty in completing the work should be recorded. The creation of an Australian government archives organisation, in itself a highly desirable and overdue development, for a number of years unintentionally limited access. Records which had been readily identifiable and easily found through individual departments became "lost" or inaccessibly stored as departments thankfully divested themselves of their accumulations. In the process there was some unfortunate destruction, most notably in size and importance the records of the Department of Supply and Shipping. Successive governments have been reluctant to provide the resources needed to examine, put in order, and make accessible vast volumes of material covering not merely the war of 1939-45 but dating

back three-quarters of a century. The Whitlam Government finally took, in 1975, the necessary basic steps towards adequate staffing and organisation, still to be fully implemented, but this was too late for us. Notwithstanding, we have only gratitude for the way archives staff have sought to meet our needs.

For varying periods four research assistants—Faith Fogarty, Cathy Munro, Helen Townsend and Jane North—have successively provided us with invaluable essential help and to each our debt should be acknowledged.

Preparation of the manuscript for the printer has been in the experienced hands of Joyce Fisher whose expertise in this and other fields has contributed to several volumes in this series as well as to other books. She has said that her epitaph will be "she was mentioned in prefaces"; she should once again be so mentioned with grateful appreciation so that not only she but her friends may know that the skill and devotion she gives to the vast amount of work that lies between an author's manuscript and a finished book are appreciated by the people who have caused the most trouble and best know what she has done.

The index has been prepared by Mr. E. Zalums.

S. J. BUTLIN
C. B. SCHEDVIN

Sydney/Melbourne,
February 1976.

CHRONOLOGY

1941	7-8 Dec	Japanese begin landings in Thailand and Malaya and attack Pearl Harbour
	11 Dec	Italy and Germany declare war on United States of America
	25 Dec	Fall of Hong Kong
1942	23 Jan	Japanese forces capture Rabaul
	3 Feb	First Japanese air raid on Port Moresby
	19 Feb	Japanese attack Darwin
	8 Mar	Japanese troops enter Rangoon
		Japanese forces occupy Lae and Salamaua
	9 Mar	A.I.F. troops from the Middle East begin to arrive in Australia
	17 Mar	General Douglas MacArthur arrives in Australia
	9 Apr	American forces on Bataan surrender
	18 Apr	G.H.Q. South-West Pacific Area established in Melbourne
	5-8 May	Battle of the Coral Sea
	20 May	Allied forces withdraw from Burma
	26 May	German offensive in Western Desert begins
31 May-1	Jun	Japanese midget submarines raid Sydney Harbour
	4-6 Jun	Battle of Midway Island
	18 Jun	Mr Churchill arrives in America for conferences with President Roosevelt
	21 Jul	Japanese invade Papua
	7 Aug	American marines land in southern Solomon Islands
	25-26 Aug	Japanese forces land at Milne Bay
	17 Sep	Japanese drive over Owen Stanleys halted by Australians at Imita Ridge
	25 Sep	Australians begin counter-offensive in the Owen Stanleys
	23-24 Oct	Battle of El Alamein begins
	2 Nov	Kokoda recaptured
	7-8 Nov	Allied landings in French North Africa
	12-15 Nov	Naval Battle of Guadalcanal

	19 Nov	Russians announce launching of counter-offensive at Stalingrad
1943	23 Jan	Organised Japanese resistance in Papua ends
	29 Jan	British Eighth Army enters Tripoli
	18 Feb	9th Australian Division arrives at Fremantle
	2-4 Mar	Battle of Bismarck Sea
	12 May	Trident Conference in Washington between President Roosevelt, Mr Churchill and the Combined Chiefs of Staff
	13 May	Campaign in North Africa ends
	14 May	Hospital ship *Centaur* sunk by Japanese
	30 Jun	Americans land on New Georgia in central Solomons
	10 Jul	Allies invade Sicily
	14-24 Aug	First Quebec Conference between President Roosevelt, Mr Churchill and the Combined Chiefs of Staff
	21 Aug	Australian Labor Party wins Federal elections
	3 Sep	Allies invade Italy
	11 Sep	Australian troops enter Salamaua
	16 Sep	7th and 9th Australian Divisions enter Lae
	2 Oct	Australians capture Finschhafen
	1 Nov	American forces land on Bougainville in northern Solomons
	22 Nov	Cairo Conference between President Roosevelt, Mr Churchill and General Chiang Kai-shek
	28-30 Nov	Teheran Conference between President Roosevelt, Mr Churchill and Marshal Stalin
	15 Dec	Americans land on New Britain
1944	2 Jan	American Sixth Army task force lands at Saidor in New Guinea
	23 Jan	Australian troops clear Shaggy Ridge
	31 Jan	American forces invade Marshall Islands
	22 Apr	American landings at Hollandia and Aitape in New Guinea
	24 Apr	Australian troops enter Madang, New Guinea
	27 May	American forces land on Biak Island
	6 Jun	Allied forces invade Normandy
	19-20 Jun	Naval Battle of the Philippine Sea

	21 Jul	U.S. marines invade Guam
	15 Aug	Allies invade southern France
	17 Sep	First Allied Airborne Army lands in Holland
	5 Oct	British forces land on mainland of Greece
	11 Oct	American Third Fleet attacks Luzon in the Philippines
	23-26 Oct	Naval Battle of Leyte Gulf
	24 Nov	Superfortresses attack Japan from bases in the Marianas
1945	3 Jan	Allies occupy Akyab in Burma
	9 Jan	American forces land on Luzon
	4 Feb	Yalta Conference between Mr Churchill, President Roosevelt and Marshal Stalin
	1 Apr	American forces land on Okinawa
	12 Apr	President Roosevelt dies; Mr Harry S. Truman becomes President of the United States
	28 Apr	Mussolini shot by partisans in Italy
	30 Apr	Hitler commits suicide in Berlin
	1 May	Australian troops land on Tarakan Island
	7 May	Germany surrenders unconditionally
	11 May	Wewak captured by 6th Australian Division
	26 Jun	United Nations Charter signed at San Francisco
	5 Jul	Death of Australian Prime Minister, Mr John Curtin
	13 Jul	Mr J. B. Chifley elected leader of Federal Parliamentary Labor Party and becomes Prime Minister
	16 Jul	Potsdam Conference between representatives of Britain, United States, and the Soviet Union to draw up terms for Japanese surrender and to discuss military and political issues connected with termination of hostilities
	26 Jul	Mr Clement Attlee elected Prime Minister of Great Britain
	6 Aug	First atomic bomb dropped on Hiroshima
	8 Aug	Soviet Union declares war on Japan, effective from 9th August
	9 Aug	Atomic bomb dropped on Nagasaki
	15 Aug	All offensive action against Japan comes to an end
	2 Sep	Japanese envoys sign the Allied instrument of surrender aboard the U.S.S. *Missouri* in Tokyo Bay

CHAPTER 1

THE IMPACT OF PACIFIC WAR

THE Japanese many-headed assault on 7th December 1941 was a profound shock to Australians. Japan was traditionally the potential enemy; in 1939 planning had presumed active Japanese hostility from the outset; during the second half of 1941 the prospects for peace in the Pacific had deteriorated steadily. But few Australians thought the situation at the beginning of December was hopeless, or contemplated that Japan was on the verge of challenging America as well as the Allies by direct attack. The shock was correspondingly severe as the full range of Japanese plans became clear. Initial attacks on Kota Bharu in Malaya and Singora and Patani in Thailand and on Hong Kong were overshadowed by the startling news of the devastating raid on Pearl Harbour and the less important one on Manila in the Philippines.

The news was heavy with portents and threats, the full meaning and magnitude of which it was difficult to comprehend. America was, at last, in it; henceforth she was a full fighting ally, and it was impossible to conceive America being other than finally victorious. But it was Japan that had attacked America, and the crushing defeat she inflicted at the outset in Hawaii underlined both Japanese confidence and Japanese ability to strike hard. America might be an active ally, but the implications of Pearl Harbour offered no comfort to Australia, no assurance of immediate or effective aid. And Japan seemed strong for attack wherever she chose.

In the days that followed, the initial shock was accentuated by the unbroken record of Japanese aggressiveness and Allied inability to make more than token resistance. Guam fell on 10th December and Wake, assaulted the next day, on the 23rd. The air attacks on Manila were followed by a landing on the 12th. American strength in the Pacific seemed an illusion. Meanwhile news of Malayan fighting, as available to the public, was disquieting. The loss of *Prince of Wales* and *Repulse* confirmed the pitiful air weakness of British, Indian and Australian forces in Malaya; the repetition of news of one retreat followed by another sharpened fears already acute enough, while optimistic and soothing reports from Malayan commanders were soon being read as forewarning of another defeat impending.

In January the immediacy of the threat to the Australian mainland became real. Rabaul in territory held under a League of Nations mandate was bombed on the 4th and subsequently, until strong forces landed on the 23rd, the same day as Kavieng in nearby New Ireland was assaulted. Singapore fell on 15th February, and Rangoon on 8th March. Darwin had on 19th February the first and most severe of a series of bombing raids, to be followed by other raids on north-western ports. Timor was taken on the 23rd; in the following days there were severe naval losses north of Java, the position of which was apparently hopeless. On 8th March

Japanese forces landed at Lae and Salamaua on the mainland of Australian New Guinea, and on the 12th Allied forces in Java surrendered.

At that point the Japanese had achieved in three months what they had planned to achieve in six. They held a line stretching from Rangoon in Burma down to Timor, through northern New Guinea and north through Wake Island to the Kuriles, and enclosing Malaya, the Netherlands East Indies, the Philippines and the last American outposts of Wake and Guam. Within that vast area only Australian guerillas in Timor and a doomed American force in Bataan qualified Japanese victory. Her air supremacy was overwhelming, and her negligible naval losses stood out starkly against the repeated destruction of Allied vessels on almost every occasion of conflict.

To Australia what had happened seemed but a foretaste of what was to come. From Britain little could be expected. What forces could be spared from Europe and the Middle East would clearly go to the defence of India; any optimism concerning British aid must have been quenched by the evident determination of Churchill to give Indian defence priority over Australian, even to the extent of diverting Australian forces, returning from the Middle East, to that theatre. Such help as could come must come from America.

And however great that might ultimately be, it was brutally clear that it would not be, for some time, large. American troops landed in Australia late in December 1941 had consisted only of some units that had been on their way to the Philippines and the intention was to find means of ferrying them forward to those islands. The urgent need for aircraft, it appeared, would not be met for some time except by token forces. Warnings from America indicated that for a while American mobilisation would probably reduce supplies of warlike material below the level enjoyed under Lend-Lease before the Japanese attack. Those supplies must come across sea routes threatened by the dominant Japanese navy. Help would come but, immediately, Australian defence must be sustained almost wholly by its own forces.

The economic events of the first three months of Pacific war must be seen against this background. Abruptly the country so far participating in a distant war, was plunged into near-at-hand conflict, in which attempted invasion seemed certain. What could be or should be done on the economic front was dictated by the probability that war would be waged on Australian soil, and the certainty that for some months only limited American aid would be available. Moreover, for more than three months the full dimensions of this situation were unfolding. In December it was still possible to hope that Malaya would hold; by January the question was whether the Indies could delay the Japanese long enough to permit defence in New Guinea and on the northern coast to be organised; by February invasion seemed likely. Worst of all, the Japanese seemed irresistible.

The effect of this developing threat on Australian attitudes is the

concern of another volume.[1] It was a period of great uncertainty and fear, but not of panic. In a national broadcast on the day following the Japanese attack, the Prime Minister, John Curtin, declared:

> I can give you the assurance that the Australian Government is fully prepared. It has been in readiness for whatever eventuality, and last Friday the initial steps were taken and fully carried out. From early this morning the Service Ministers of the Cabinet and the Chiefs of the fighting Services have done everything that has to be done by them. The War Cabinet met and put into effect the plan devised for our protection. This afternoon, the full Cabinet met and I am able to announce to you prompt decisions on a wide variety of matters—all of them vital to the new war organisation that confronts us.
>
> All leave for members of the fighting Forces has been cancelled. An extension of the present partial mobilisation of Navy, Army and Air Forces is being prepared. The Minister for Home Security will, tomorrow, confer with Army authorities on air raid precautions. Regulations will be issued to prohibit the consumption of petrol for purposes of pleasure. A conference will be held by the Minister for Supply with oil companies on the storage of fuel and the security of that storage. Arrangements will be made for all work on services that are essential nationally to be continued on public holidays in future, while, in this connection, all transport services will be concentrated upon necessary purposes. The Minister for Labour will leave for Darwin immediately to organise the labour supply there. An examination will be made to ascertain what retail establishments should continue to trade after 6 p.m.—so as to conserve light, coal, transport services.

Most of the measures referred to were naturally military, and it was the duty of a Prime Minister to reassure the public. But on the economic front there was some justification for the claim of preparedness. The plans for a Manpower Directorate, for instance, were well advanced; and other plans were in fairly specific form. More generally, a wide range of measures which took precise shape in the following weeks had been canvassed, so that in the new atmosphere they could be implemented at short notice. Controls which a month earlier would have been unwelcome could now be hurried forward with the certainty of public co-operation. There was preparedness in this wider sense, not of a set scheme for action should Japan attack, but of recognition of problems and exploration of solutions.

What the new situation would demand on the economic front was as unclear and as changing as were the military demands of Pacific war. Now, as at no earlier time, what was required of the economy was dictated directly and immediately by a fast-changing military situation. Neatly integrated economic planning was neither possible nor sensible in December-February. An urgent military need which demanded major use of economic resources might disappear within days and be replaced by a new one. Thus the Japanese attack which might have increased the need for supplies for the Eastern Group Supply Council, based in India, by its onrush made the shipment of such supplies virtually impossible—and, for example, clothing accumulated, to provide welcome easing of Australian rationing months later. Northern defence works appeared at one stage so urgent that the import of Javanese labour was sanctioned, but the speed of the Japanese advance made the labour unavailable and changed the strategic need.

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[1] See P. Hasluck, *The Government and the People, 1942-1945* (1970) in this series.

Japan's rapid approach brought a sharp intensification of air raid precautions work. Such a fluid strategic situation meant that economic strategy must remain obscure until the military demands were more clearly defined.

What was clear, assuming that Australia was not overrun within a brief space of time, was the general direction in which economic policy must go. There must be great and immediate expansion of the armed forces, to which all other demands must be subordinated, and labour must be diverted to air raid precautions—in other words, a great call on manpower engaged in production, a call which must be met at once. Munitions, and especially aircraft production, must be expanded—but along broadly the established lines. War supplies of all sorts must be produced in greater quantity, including, it presently appeared, war supplies for the Americans. Defence works must be rushed ahead in many places, including remote ones. Oversea supplies would be, at least temporarily, tenuous, even supply of the most vital materials. The economy must be prepared in haste for sustaining a greatly expanded war effort even though territory might be lost to an invader, and any locality under actual or threatened attack.

Several morals were painfully plain, so plain that it does not seem they were even formally stated, although recognition of them was constantly implicit in what followed: the great and central need was manpower—manpower for the forces, for air raid precautions, for war production, for the essential minimum civil needs; all "non-essential" activities must be slashed ruthlessly, and the civilian standard of living seriously curtailed; economic aid from America was likely to be slower in arriving than major military help must be, and therefore, in the short run, Australia must depend primarily on her own manpower and productive resources. These central issues were obvious. What could not be seen was how far action must go, whether total resources would be adequate, and, above all, whether there would be time enough for the required far-reaching transfers of activity.

But the main lines were clear, and action could proceed. The forces could be expanded; non-essential production could be slashed; the organisations for controlling and directing mass movements of labour, and for executing a great works programme, could be created. How far it might prove to be necessary to expand the forces, to cut living standards and to regiment labour, could scarcely be guessed, and must be left to emerge with time. At least from December 1941 to March 1942 it seemed clear that what could be achieved in that critical period could not possibly be too much. Rather the driving force was the conviction that the most that could be done might well be too little or too slow. Whether it would in the end be enough and in time, could only be determined by the unforgiving arbitrament of battle.

What therefore was striking at the time remains noteworthy in retrospect. There was no panic in the Administration. There was fear, deepening as the Japanese pressed on, that invasion and defeat might be very near. But fear only becomes panic when no solution to pressing danger can be seen, or when it seems that all hope is lost. In those early

weeks of Pacific war Australians could take some comfort from having America as an ally—at least, in the end, Japan must be defeated, since defeat of America was unthinkable. If for a few months the Japanese could be held, military and economic aid must come from America in quantity.

In the months to come, in the popular and in the political mind the cheering fact seemed to be the presence of United States troops on the Australian mainland. But during 1942 and 1943 events in the South-West Pacific Area were not to be vitally influenced by United States ground forces; even the United States army air forces were not a major factor until a year after Japan's attack. From time to time during 1942 and 1943 United States naval forces intervened decisively, but this was largely invisible to Australians. The strongest then-effective military reinforcement that could or did reach Australia during 1942 was the return of the A.I.F. from the Middle East; the determined insistence on this return to Australia rather than Burma against the stubborn opposition of Churchill rested on appreciation of the hard fact that no other immediately operational ground forces were available. In the short term the primary form of American aid was to be in supply.

The military task was clear and, at least, not hopeless; so was the economic. The best economic effort of which the country was capable might not prove enough, in the sense that invasion and even complete occupation might precede an ultimate Allied victory in the Pacific. But the broad pattern of advance of the economy was sharply defined.

The immediacy of the threat swept away the resistances and released the inhibitions that had dogged the first two years; for the first time the Government was confronted by a population clamouring to be told what to do and what to sacrifice, and critical only of apparent slowness or tenderness in applying the scourge. But it would be grossly false to see the economic decisions of December-March as panic responses to repeated disaster. What was noteworthy was how the Administration, in the circumstances as they were then known, did what was to prove the right thing. That must not be attributed to confidence in being "saved" by America. At the highest political, Service and administrative levels there could be no illusions as to the scale on which American military or economic aid would be immediately available. Nor would thankful reliance on early rescue have prompted the drastic reorganisation of the economy which was pressed through during the first half of 1942. The "rightness" of what was initiated in the first three months of Pacific war was conditioned primarily by the brutal clarity with which the essential lines of policy were defined, for government and population alike, and secondarily by the two years' experience of less immediate war and all that that had entailed.

For some weeks, however, the activities of the Government could only be obscurely known to the public. After the first sweeping announcements time was required, even if measured only in days, to translate principles of action into legal form, to bring organisations into being, and to determine what persons should move where. Undue precision in advance

announcements—as happened with curtailment of holidays—could produce confusion, and criticism deriving from that confusion. The plans for the Manpower Directorate were endorsed within days, but regulations could not be published until a nucleus organisation had been created and other preparations made. Cuts in petrol rations could be determined, but could have no effect until the current ration period expired at the end of January.

Opinion therefore, as reflected in or moulded by the Press, tended to be critical, not so much of particular actions as of the lack of this or that action. The *Sydney Morning Herald* declared in magisterial tones that the Government

> may be sure that they will have the country solidly behind them . . . . It must use the authority then given it. The public looks for the strongest action and will be critical only of hesitation and delay.[2]

This was an accurate enough forecast; there was such criticism, most of it misdirected in inevitable ignorance. For, in retrospect, the "rightness" of what was done was matched by the speed with which action, even if necessarily withheld from the public, was decided and executed.

What was initiated during the first three months makes a pattern readily intelligible against the definition of the demands upon the economy. In foremost place was the enlargement of the Services. Before the Japanese attack numbers in the forces were 382,100. Immediately large call-ups commenced. By March the net total of the Services had grown to 554,700. The rapid removal of such numbers of efficient workers placed great strain on essential production and made the already planned manpower organisation even more urgent. Later the tradition was to develop that the Services demanded too much in this transition period and that a primary purpose of the Manpower Directorate was to restrain unreasonable Service demands. Some months later this was true, but by then circumstances were very different. By then the Services were expanded beyond a size which could be maintained for more than a year or so by a population of 7,000,000, and, in any case, once the Manpower authority was in existence it was natural and reasonable for the Services to press their claims for manpower, and for the Manpower authority, in its role of arbiter, to seek to restrain them. But in the first weeks the issue was not seen by anyone in the terms later attributed to this period. No one questioned the urgent necessity of rapid increase in the Services, and on several occasions, it was the Services that took long views. For instance, curtailment of exemptions for University students in December was liberalised in January on the initiative of the Adjutant-General; he was concerned that the army should not receive recruits who would not be ready for battle for months, at the cost of being short of specialist officers a year or two later when, if the Japanese were held, they would be sorely needed. Moreover it was he, not educational authorities, who used a parallel argument concerning training for skills which had no special military use, and (later) the

[2] 12 Dec 1941.

Commander-in-Chief had already begun to reduce the establishment of the army before War Cabinet demanded that this be done.

Hard on the heels of action to enlarge the Services came multiplication of specific controls over materials and goods, shortage of which was already of concern to Munitions and the Services. Some of these had an obvious relationship to the demands implied by the transfer of large numbers of men into camp—control over certain types of timber, over tinplate (with special reference to food containers), over liquid fuel drums, toothbrush handles, boot nails and boot nailing machinery, hand tools, motor vehicle spare parts, bitumen, leather and the like. These listed took effect mainly in December or early January. In later weeks controls of this type multiplied and were tightened.

Parallel action was taken to open bottlenecks and eliminate trouble spots in vital production. Aircraft were clearly of the highest priority and hence the clash between Commonwealth Aircraft Corporation and the Aircraft Production Commission, which was of long standing, was disposed of promptly, substantially by subordinating the Corporation to the newly appointed Director-General of Aircraft Production. Personal conflicts at the Lidcombe, New South Wales, engine factory were similarly dealt with.

These were matters which brooked no delay and could be executed forthwith. There was equal speed in creating the Manpower Directorate, although its operation necessarily could not be effective for some weeks. As has been noted in the previous volume[3] the Directorate grew directly out of the Manpower Priorities Board and followed closely the blueprint it had drawn. Time was required primarily to secure the nucleus of senior staff and prepare administrative procedures; that delay permitted but did not arise from argument over the need for full powers of direction of labour, which was resolved by shelving the issue. Direction was not to be necessary for some months. With the Manpower Regulations of 31st January 1942 there was in existence a central executive authority responsible for co-ordinating the now clamant demands for labour.

Somewhat more time was required to create the organisation for the vast construction programme demanded not alone by the accommodation and related needs of a rapidly growing army, but by defence works in innumerable places, by new transport needs, by airfields, by storage requirements. Parallel demands for American forces almost immediately had to be added and, if possible, integrated. The special labour needs were to be met by the creation of a Civil Constructional Corps, independent of the Manpower Directorate but co-ordinated with it. The central organising authority took the form of the Allied Works Council, planned to utilise whenever and however practicable the established construction organisations of State and local government, statutory corporations, railways and private enterprise, and to create new organisations wherever they would be more effective.

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[3] S. J. Butlin, *War Economy 1939-1942* (1955) in this series.

The specific issue of co-ordinating construction for Australian and American needs had a wider parallel in co-ordination of Australian and American Service demands on the civil economy. A transient body, the Administrative Planning Committee, was replaced by a permanent Allied Supply Council on 5th May 1942, with functions which were to grow with time.

Thus far what have been noted are the highlights of action which was demanded as the immediate response to a specific and urgent need. Meanwhile action was preparing in other directions. There was a rapid spread of "releasing" controls, that is those in which the approach was that all resources of all kinds would be needed, and non-essential uses of them should be prevented or sharply curtailed, without close inquiry as to the precise or immediate war use for the resources that might be released. The purest example of this approach was the first Prohibition of Non-Essential Production Order of 23rd February, which took the form of simple prohibition of production of a variety of listed articles. This particular order was prepared in haste to meet a government decision to establish the central principle of blunt prohibition of non-essential activities at a moment when the public was shocked by the first raid on Darwin; the list of goods was in fact made up late at night with no more guidance than could be got from trade directories. But the central principle was not new, nor was it adopted without thought or restricted to this sort of application. Already general restrictions on holidays had been applied to all production and not only to that classed as "essential"; restrictions on pleasure activities which used petrol or encouraged absenteeism (for example horse racing) were in force. Presently there was to be drastic curtailment of retail deliveries, and, more generally, the whole "rationalisation" policy of the Department of War Organisation of Industry. That policy, already formulated before Pearl Harbour, was based upon recognition of the fact that essentiality was a complex concept, and blanket prohibitions had severely restricted use; in the main, eliminating the non-essential demanded tedious investigation and difficult and contentious planning. Over the next few months this more sophisticated approach was to prevail, but still guided by the dominant principle that the non-essential must go.

Consistent with this approach was the conviction that civilian production should be directed to satisfying essential civil needs more adequately, partly in recognition of existing deficiencies, partly because these deficiencies would become more acute. In the Department of Supply which had been primarily concerned with Service supply and had already established "controls" of, for instance, jute goods in December, a system of controllers was developed. Much of the complexity of the Department of War Organisation of Industry's rationalisation activities stemmed from the need to devise schemes to ensure that essential needs were adequately served.

But in many directions it was fairly clear that the best planning would not secure sufficient civilian supplies. The probable need for formal coupon rationing of goods to civilians was generally recognised, and preparations for it were initiated. It was to be unfortunate that it was not implemented

early, when the public mood would have ensured acceptance. In the end it had to be introduced when, in fact and in appearance, it was the solution to an emergency, and when so much delay ensured that, on the one hand, ready acceptance was lacking (an attitude reflected by some Ministers) and, on the other, any administrative preparations produced immediate widespread rumours.

Finally there must be noted the Government's broad financial policy, which was announced in February. One facet of it was the avowed determination of the Government to eliminate the States from income taxation. The opening shot was establishment of a committee to report on how this might be done, and the sequel was long delayed. In the end, by August, the policy was established that there should be one income tax throughout Australia. The delay meant that the weapon was not unsheathed until 1943, but it did place in the hands of the Commonwealth power to peg the spending of State governments and, in total, of individuals. Associated in principle but not in form were the Economic Organisation Regulations of more immediate application. Broadly these were intended to peg wages at the level of the date of the regulations, 19th February; to limit profits to 4 per cent per annum; to direct price control to controlling profits; to peg interest rates and prohibit speculative dealings in property. Such sweeping principles were to prove difficult in application, as with the pegging of wages, or so difficult in administration and so complex in their effects that, eventually, they were abandoned, as with profit limitation. But in the mood of early 1942, as Singapore fell and New Guinea was invaded, they appeared to the Government as desirable and practicable, and, in general, to the public as acceptable. Eventual abandonment or weakening of the proposals should not disguise the fact that for perhaps six months they achieved a significant purpose. Broadly there was conformity to the intention of the regulations, not because investors and employees on the whole accepted them but because they served as a guide to conduct, so long as fear of invasion was dominant. Together uniform taxation and the Economic Organisation Regulations represented the application to broad financial problems of the same approach as was embodied in the Directorate of Manpower or the Prohibition of Non-Essential Production Order: in a pressing national danger citizens should be told what to do and what to sacrifice. For perhaps six months after Pearl Harbour, the principle worked; fear of the Japanese embodied the most potent form of self-interest.

As important as the specific acts of economic policy so far sketched were the attitudes they expressed. There was a great and willing surrender of political authority. Parliament continued to meet, indeed more frequently. Later in 1942 debate was to be determined and hard knocks given and received, as with civilian rationing. But for several months members tacitly recognised that war and the outward conventions of political freedom were inconsistent. Cabinet devolved extensive executive authority on informal committees, some of which came into being simply for a single act at the request of the Prime Minister. Ministers really

exercised, without reference to Cabinet, powers which were already nominally theirs, but which previously were not exercised without prior Cabinet endorsement. Thus the sweeping regulation 59 of the original National Security Regulations was the explicit authority for a wide range of executive action for the first time without necessary reference to Cabinet. In December and January there was a spate of delegations to officials of Ministers' executive powers. Regulations and orders tended to be in sweeping terms, to be spelled out by officials. Thus the Essential Materials Order of February, perhaps the most pedantically precise of all wartime orders, contained a clause which in effect gave the Director of Supply in the Department of Munitions power to rewrite the terms of the order to suit any occasion.

It could be said that the surrender of democratic political authority was the price of rapid action and the efficient formulation of controls. What must be noted is the speed with which this development occurred, and the ease with which it was accepted. But it had some unfortunate results. Senior officials came to be better known to the public than their Ministers, to announce policy decisions, and to sign orders which as recently as November would have been the prerogative of Ministers. Many of them came to like the notoriety and to seek it.[4]

Among Australians generally there was a ready abandonment of ingrained doctrines which in 1941 had been effective brakes on action. For some months there was ready acceptance of the pegging of wages and of profits. Plans for permitting the Americans to import Javanese labour for northern works, which in form outraged the White Australia policy and challenged deeply-held union principles, were adopted without difficulty by a Labor Government. When the first prohibitions of non-essential production were announced the Department of War Organisation of Industry was besieged by its victims, mostly small businessmen whose livelihood had been abolished, and scarcely any sought more than guidance as to what he should do. Publication of plans for extensive employment of women in replacement of men evoked no hostility.

Within the Administration there were established habits of mind which were later to be sources of difficulty. There developed a deceptive faith in controls whose efficiency depended upon the victims' co-operation. "Black-marketing" did not become part of the Australian vocabulary for perhaps a year, because the thing itself was of minor importance. But most of the controls applied during the first half of 1942 were incapable of rigid enforcement against unco-operative citizens. As much as any people Australians had always regarded the government as fair game and, in a normal atmosphere, instructions to report scattered stocks, to charge fixed prices for goods of highly varying quality, to do this or refrain from that, would have been of limited effectiveness. For the first half of 1942 fear of the Japanese was the overriding sanction. That was not true of late 1942, still less of 1943, a change which many officials had to learn by

[4] For discussions of such developments see Hasluck, *The Government and the People, 1942-1945.*

painful experience. The maintenance, for instance, of a ritual of price control under State authority for ten years after the war ended reflected naive belief in "controls" which was mostly born in 1942.

There developed too a disposition to control for the sake of control, to pursue "tidiness" as a goal in itself, to seek completeness in detailed administration far beyond the point where any useful wartime purpose was served. This was true of much of the late 1942 rationalisation activity of the Department of War Organisation of Industry. The effective sanction for reorganisation of an industry was often the removal of part of its labour by the Directorate of Manpower; at that point the industry might have been left to work out its own salvation, but its members naturally welcomed the readiness of War Organisation of Industry officers to do the work for them—and to take the public criticism.

Similarly there developed a disposition to identify "austerity" with a contribution to the war effort. With Curtin this had the justification of his puritan views; consciously or not he was pursuing other objectives besides those of war; but with many officials there could be no such justification for the readiness with which they assumed that a restriction was desirable. Restriction on beer, for instance, was probably a misguided policy, if only because of the man-hours wasted in liquor queues, but Curtin's emotional obsession with this subject found willing collaborators amongst officials with no such personal feelings.

So too there was excessive concern with "fairness". Too often effort was devoted to arranging "fair" sharing of a supply that was too small to satisfy more than a small part of demands, where it did not really matter much whose demands were met. When production of non-essentials was prohibited, the prices of the existing stock should not have mattered, but such goods were invariably brought under price control. The Department of War Organisation of Industry's objective of "concentration of industry" foundered on undue concern with fairness.

These reflections on later consequences do not detract from the magnitude of what was achieved in the early months of Pacific war. But much more was achieved then than the specific things outlined above. There were set in motion forces which developed great momentum, and continued to drive economic policy along the lines broadly defined in March. Until perhaps September there was little to restrain the intensification of restrictions on the civil economy, the enlargement of production and of Services' commitments for manpower, or to prevent controls spawning controls. The lines of advance required had been caustically etched in December, emotional reactions had established obsessions, and the plunge towards a totally regimented war economy could be described as headlong.

By the end of 1942 it would be necessary to face the fact that the Australian economy was overcommitted, in the sense that it could not achieve all that, by then, it was planned it should do; and wrongly committed, in the sense that by then, some of the objectives being sought were attainable only at the expense of more vital ones. In January it could seem that whatever could be achieved might fail in being too little or too

late; by December it was clear that what was then being attempted or planned was too much.

In a sense this overcommitment of the economy was inevitable, and indeed desirable. Setting in motion drastic recasting of the structure of an economy under the spur of national danger was easier than slowing down that process under way, when the danger was only less, not eliminated. Going too far was for this reason almost inescapable. Moreover phrases such as "overcommitment", or "slowing down" meant concretely determining the degree to which, for instance, munitions production should be allowed to have labour at the expense of other apparently equally essential activities; deciding how to balance food production against size of the armed forces. By the time these questions became the leading ones, the latter half of 1942, overcommitment had already occurred.

Equally the overcommitment could be described as desirable: it was overcommitment only in the sense that the worst did not happen, in part because of the very intensity with which resources were diverted to defence. Had the battle of Milne Bay or that of the Owen Stanleys not been won; without the code-breaking that produced victory at Midway; if the Americans had been pushed out of Guadalcanal—then the position at the end of 1942 would have been very different. Until all threat of invasion was past the only sensible principle for economic policy was that the most could not be too much. There could be criticisms of particular applications of the principle—for example persistence with tanks or torpedo production. But it could also be said that it was the pursuit of the maximum as the only limit, established as a principle in the first three months, which ensured that a year later it should *then* be too much.

CHAPTER 2

THE SEARCH FOR MANPOWER

PROPOSALS for a comprehensive directorate of manpower went to the Cabinet a few days after Pearl Harbour.[1] The occasion was the clear need for urgent action but the proposals themselves were the fruits of the analysis by the Manpower Priorities Board. More than ever the work of that Board showed its value, for a carefully considered and integrated scheme, adapted to the demands of the crisis but inspired by wider and longer-term principles, was circulated to Ministers in little more time after the Japanese attack than was required for the clerical work.

The resulting Cabinet submission is the key document on the smooth and rapid transition from the miscellany of administrative bodies and weakness of policy of the preceding two years to the integrated administration of a unified policy which was to be one of the conspicuous features of the year of danger, 1942. The immediacy of the Japanese threat was the compelling force behind the adoption by the Government and acceptance by the people, but the substance of what was done derived directly from the Board's planning.

Specifically it was proposed that one authority responsible to the Minister for Labour and National Service should, for policy-making, replace the existing constellation. It should compile and maintain continuously up-to-date, a manpower register. For its operation it should have national service offices throughout the country, using for this purpose established State or Commonwealth agencies where appropriate, and in particular the existing capital city National Employment Offices. The administration of the List of Reserved Occupations should pass over to the new authority, which also would establish a register of "protected" establishments, have power to control exemption from military service, and be the sole channel for engagement of labour by *all* employers.

The regulations which embodied the Government's acceptance of substantially the whole of these proposals were issued on 31st January 1942.[2] The seven weeks' interval represents not delay but action at great speed. In that interval the proposals had been before all three Cabinet bodies (the scheme was of direct concern both to the Production Executive and to the War Cabinet, while the abandonment of liberties in employment was a revolutionary step for a Labor Government); there had been exploration of the wisdom of adding powers to direct labour to employment (not part of the original proposals); and discussions with State representatives whose administrative agencies were to be used and whose Labour departments must provide a major part of the staff. All this had to be achieved by Ministers and senior officials beset on all sides by the fast

[1] The original agendum to Production Executive (10/1941) was dated 13 Dec; it was before the War Cabinet (Minute 1646) on 31 Dec and was referred to the Full Cabinet which discussed it on 6 Jan. It was endorsed by the War Cabinet on 19 Jan when a supplement to the original submission was a draft of the Manpower Regulations.

[2] Statutory Rules 1942, No. 34.

changing demands for immediate action as the Malayan calamities developed.

There was equal speed in bringing into being the new Directorate of Manpower, made easier by the transfer intact of the senior staff of the Manpower Priorities Board. W. C. Wurth, the Board's chairman, became Director-General and his new deputy directors in the State areas which were the basis of organisation were the old deputy directors of the Board.[3] A head office for each State, controlled by a deputy director, was promptly established, with a National Service office in each military district, these offices in general being controlled by the officer who had formerly acted as Manpower Officer administering the List of Reserved Occupations. The Employment Offices of the Department of Labour and National Service were similarly absorbed, readily enough since they were responsible to the same Minister as the new Directorate.[4]

Much of the speed and ease of organisation might therefore be explained by the taking over of authorities which were employed on their former activities. This not only avoided the task of creating new instruments, but obviated resistance from authorities which might have been displaced but could, as things were, continue their old functions with a new efficiency and enthusiasm. But integration of existing authorities was merely a procedural step; the task of the Directorate was far larger and wider than that of the old agencies. As one reflection of this fact, a much greater staff was required. In February 1942 total staff throughout Australia was 324, mainly officers absorbed from former organisations. In March it was 917, in June 1,306, and by the end of the year 1,958. The major source was State public services, properly enough, since their departments of Labour contained the officers with relevant experience and skill.

Consistently with the form of organisation and the source of staff, administration was decentralised on a State basis. The Director-General at a later date described the general operation:

> the Director-General determined *how many* men should be recommended for release from the Army for a particular industry in each State; the Deputy's organisation determined *which individuals* should be withdrawn. Or again, the Director-General prescribed the level of employment which should be maintained in, for example, the textile industry in the various States. The Deputy's function was to maintain that level.[5]

On the whole the basis of this type of devolution was observed. It was expedient, in view of the politics of Australian federation and the sense of semi-independence of State officials implementing a Commonwealth policy. But it was also sensible administratively, especially in relation to Aus-

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[3] N.S.W., C. J. Bellemore; Victoria, D. Cameron; Queensland, F. E. Walsh; South Australia, L. C. Hunkin; Western Australia, H. T. Stitford; Tasmania, M. S. Wilson. A formal exception was New South Wales where the Board's deputy director W. Funnell became Assistant Director-General of Manpower; he was replaced as deputy director by another senior State official, C. J. Bellemore.

[4] The Directorate was the responsibility of the Minister for Labour and National Service; in practice, whatever formulas may have been used from time to time, the Directorate was a department separate from Labour and National Service with close relations on some matters of common concern, but no closer than those with a number of other departments.

[5] W. C. Wurth, *Control of Manpower in Australia, February 1942-September 1944* (1944), p. 43.

tralian distances and the divergent economic circumstances of the States, notably in their industrial patterns and the degrees to which they were drawn into munitions and related work.

The central function of the Directorate was the allocation of manpower —now for the first time genuinely including women in that term. Initially the Directorate was confronted by three major consumers of labour. First were the Services, who had now to cope, not with supplying volunteers for a distant war and organising the basis of precautions at home, but with the threat of a powerful enemy close at hand, an enemy who within weeks was occupying Australian territory. Between Pearl Harbour and the creation of the Directorate as an operative authority, 100,000 men had been called up for service; by June a further 100,000 had been enlisted.

Until February only the List of Reserved Occupations controlled call-ups, although the Services were keenly alive to their own dependence on the maintenance of certain civil activities and this awareness was probably a more potent and effective restraint during this emergency period than was the List.[6] Of equal importance with the Services were munitions and allied industries. War at hand implied larger forces; active war implied greatly accelerated expenditure of arms and equipment; Japanese naval superiority enforced greater reliance on Australia's own productive resources. These two, the Services and munitions production, were the familiar consumers of large masses of labour. They were now joined by a third—"works": constructional works ranging from defensive works in the north and round the coast to inland defensive air stations and camps for Australian and American forces. This demand for labour, new in the magnitude and urgency of the work to be done, demanded its own streamlined organisation.

For some months these three vital demands dominated the work of the Directorate. Its task during those months was to divert all the men and women who could be found to these three consumers, and to hold the balance between them.

THE SCHEDULE OF RESERVED OCCUPATIONS AND DIVERSION OF MANPOWER

The Directorate inherited the List of Reserved Occupations, and took over the power to control exemptions from military service which until then had been the chief formal control over the use of manpower.[7] This was strictly only a control over compulsory not over voluntary enlistment, and at this stage only over males. Over employment in protected establishments control was wider since Regulation 14 prohibited either compulsory

[6] The semi-official *Control of Manpower in Australia* conveys a contrary impression, but this was almost certainly unintentional. The writer remembers the concern of senior Service administrators early in 1942—before the Directorate—that the List should not operate mechanically to call up University students indiscriminately. The concern was unashamedly self-interested but it was also unexpectedly liberal. Such attention to a numerically small group was a fair example of thinking at the highest Service level and is adequate reply to contemporary suggestions of panic call-ups. The particular case also illustrated the Service desire that some civilian authority should take the responsibility for decisions of manpower priority. It could be represented as a desire to avoid responsibility; more important was the recognition of the problem of priorities which explains why the Services welcomed a civilian authority which, superficially, imposed restraints on them.

[7] Regulation 6 of National Security (Manpower) Regulations.

or voluntary enlistment of such employees without Manpower consent, and applied therefore to women as well as men.

These were comprehensive formal powers. The first task of the Directorate in this regard was to devise machinery and procedure for the exercise of the powers, and the central instrument was a Schedule of Reserved Occupations and Industrial Priorities which from 9th March 1942 replaced the old List. Superficially similar to the List it differed in a number of respects. First it was consciously seen as one instrument only in an interrelated set of controls, and conceived primarily as a flexible guide to exemption of males from military service. For this reason the Schedule's provisions were not mandatory.

In addition the new Schedule was constructed differently. It was built upon a schedule of industrial priorities, in three grades: industries in which employment should be maintained or increased; industries in which employment might be permitted to fall off to a limited extent; industries in which employment should be substantially reduced.

For many industries in the first group the principle of "blanket" reservation was adopted, the symbol "A" signifying that all labour should be reserved until a detailed review of the industry could be completed. In part this was recognition of the administrative difficulty of specifying occupations effectively—notably in the public service. The only efficient way of determining what labour was essential was detailed scrutiny. In part temporary blanket reservation arose from the correct assumption that after closer examination establishments in many of these industries would be protected, that is, both compulsory and voluntary enlistment of its labour would be prohibited. On the other hand, for some first priority industries the device of listing specific reserved occupations was practicable and was adopted.

For second priority industries lists of reserved occupations were normally used, accompanied by specification of exemption ages. By varying the age limits for similar occupations in different industries, and by omitting occupations in some industries and including them in others, finer grades of priority could be achieved within the broad category.

For the third priority industries the objective of considerable reduction of employment was pursued by making only limited provision for reservation of a few skilled occupations or making no reservation provisions at all.

These gradings and classifications were not a rigid set of instructions to the National Service officers, but intended to guide the process known as "manpowering of men called up to Area offices for preliminary medical examination". Other instruments of discrimination were being elaborated, including, as will be seen, special arrangements for special classes of labour such as scientific and professional labour. Nevertheless in the early months of 1942 large-scale recruitment was being pressed ahead and administrative necessity dictated primary reliance on the discretionary application of the Schedule, so far as it concerned men called up.

In this earlier stage, too, the Schedule had a major impact in another way, involving no administrative action. It clearly guided a considerable

voluntary shift of labour, broadly from low priority to high priority industries. At the same time it imposed heavy pressure on enterprises in low priority groups to adapt their activities so as to use and to seek out the type of labour likely to be left to them, such as the elderly, women, juveniles and the like; and, as well, the incentive to switch equipment and labour to higher priority production was clear.

The device of protection was originally conceived, late in 1941, as a means of controlling "poaching" of labour, but under the new Directorate which first implemented it, protection was a positive instrument in the allocation of labour. Subject to certain qualifications, protection of an undertaking meant that the employer might not dismiss a worker and an employee might not leave his employment, even to enlist, without Manpower Directorate consent. The main qualification was that protection operated within the terms of the contract of employment.[8] Employers retained the right to dismiss for serious misconduct, and either employer or employee could appeal to local appeal boards against a Manpower Directorate decision to permit or to prevent termination of employment.[9]

The benefits conferred by protection were very substantial. The employer was safeguarded against loss of labour and the employee against arbitrary dismissal; security of employment and protection from call-up made protected employment attractive. Until August 1942 protected establishments had also the privilege of recruiting their labour directly, not through a National Service office. From the Directorate's view protection held labour in essential undertakings, controlled unwanted movement of labour—for example in pursuit of higher earnings—within the high-priority field, and offered strong inducements to seek protected employment.

The advantages meant that protection was sought after by employers. Initially the Directorate protected government munitions factories, aircraft establishments, munitions and aircraft annexes, shipbuilding yards, and many private contractors engaged wholly or mainly on munitions production or supplying raw materials for such. These were obvious decisions; later developments, as will be seen, entailed the working out of principles for determining when protection should be given, withheld, or deferred, and for ensuring that protection should not lead to waste of labour as conditions changed.

Control over enlistments held the balance between the Services and civilian industry as a whole. Protection retained labour in specified undertakings of the highest priority. There remained problems of controlling the recruiting of labour and the choice of occupation within the civilian field, and beyond these the problem of displacing labour from less essential activities.

This last objective, of releasing labour, was pursued by a variety of means, and was not the responsibility wholly or even mainly of the Man-

[8] Except that minimum notice of one week was required for termination of protected employment, even though less than one week was sufficient under the employment contract.

[9] One appeal, which reached the High Court, was that of a New South Wales police officer originally refused permission to enlist in the R.A.A.F.

power Directorate. A major responsibility of the Department of War Organisation of Industry was to displace labour for more vital uses, by prohibitions of non-essential production, by rationalisation schemes, and other devices examined elsewhere. Other agencies contributed their share of pressure: multiplying restrictions on the use of materials or equipment or on distribution facilities made it increasingly impracticable to maintain employment. General financial controls over spending directed the flow of civilian spending to essentials. The Manpower Directorate itself had a share in displacement of labour. Apart from direct call-ups, the refusal of exemption was a potent force; protection could be withheld until employment was reduced or activities rationalised.

When labour was available, there was the question of where it should be used. For the resolution of this problem, the Directorate's chief weapon initially was control over engagement of labour. The original Manpower Regulations were, so far as concerned male labour, comprehensive in their gift of formal power. Regulation 13 provided that, except in munitions or protected undertakings, no employer might engage *male* labour except through a National Service office. Had the power been exercised in this sweeping form at once, the Directorate would have bogged down in a flood of individual cases. Accordingly the regulation was suspended until 31st March, and was then accompanied by extensive exemptions. The delay was to give the new organisation time to find its feet and deal with the more urgent problem of "manpowering" the large numbers of recruits to the Services. The exceptions as a whole were to keep the Directorate's task to manageable levels, and individually were selected because of special circumstances.

All governmental agencies, Commonwealth, State, or local, were exempted. Engagement of labour for work on ships or wharves was excepted because these forms of employment were now under the direct control of the Maritime Industry Commission,[1] and (from April) the Stevedoring Industry Commission.[2] Rural work was omitted because of difficulties of effective control. Casual employment for periods up to seven days was not brought under control because of the load of administration it would have entailed. As time went on these exemptions were progressively narrowed until by August 1942 the Directorate was prepared to extend the control to employment of women.

In operation, control of engagements called for a high degree of decentralisation in administration which was achieved progressively. The obligation to obtain a permit to engage labour rested on the employer, who was in general still permitted to seek labour by his own efforts, for example by advertising. But with newspaper co-operation, advertisements for employees were subject to permit, and a permit to advertise was not in itself a permit to employ. As time went on the right to advertise was restricted and was increasingly replaced by consolidated publicity, by advertisement

[1] Set up in Jan 1942 under National Security (Maritime Industry) Regulations.
[2] Set up in Apr 1942 under National Security (Stevedoring Industry) Regulations.

or otherwise, of need for employees, publicity controlled directly by the Directorate.

In the discussion which followed the original Cabinet submission for the Directorate, sweeping powers to direct labour to employment were contemplated but not adopted. The official explanation was that the powers were not yet necessary, and the Directorate would be fully extended without this difficult responsibility. Behind these views was the persistent reluctance to endorse anything which could be described as industrial conscription. Not until January 1943 were there to be comprehensive powers to direct labour.

The regulations as issued were therefore confined to a power to direct unemployed persons to register as such and to direct them to employment. The power to direct to employment was hedged with restrictions—such as evidence of suitable living accommodation being available, payment by the Directorate of transport costs and so forth.

In practice the power was little used formally. Unemployment is a term which eludes precise definition, and in its accepted senses, unemployment early in 1942 was small and mostly in New South Wales and Queensland. Much of it was the so-called hard-core, by now a good deal whittled away, of persons suffering physical disabilities or for other reasons of low efficiency. In less exacting times most of them would have been regarded as unemployable, and the requirement that an employer engaging a directed person must pay award rates would not make them welcome employees. As things turned out, the hard-core was further whittled away to negligible size by moral pressure, the attractions of high wages, and the weakened resistance of employers to workers of low efficiency. Actual directions to those who were, in the conventional meaning, unemployed, proved to be few. In the event, the most effective use of the power to direct unemployed came in the latter part of 1942, in applying pressure to the still large numbers of single women not in employment.

Efficient use of power required knowledge, knowledge of what labour existed, and where it was being used, and knowledge of the existing and foreseeable demands for labour. The first was met by comprehensive civilian registration, approved by the Cabinet on 17th February 1942.[3] This was a notable achievement, the complete registration of all civilian British subjects, male and female, who were 16 years or older, which was executed only a month after the Cabinet approval. Primarily the achievement was that of the Commonwealth electoral organisation which handled the distribution and collection of registration cards of about 5,000,000 persons, one of a series of similar successes in detailed record-making on the grand scale which that organisation had to its credit during the war.[4]

Unlike the National Register of 1939 the Civilian Register was consciously designed as an administrative device for dealing with individuals, its use for aggregative statistical purposes being deliberately sub-

[3] Full Cabinet Minute 196.

[4] The mechanics of distribution, collection, analysis and processing of the records is described in detail, with reproduction of the principal forms used, in Wurth, *Control of Manpower in Australia*, Chapter 7.



"That's what we get for writin' to Man-power for a shearer."

Percy Lindsay in Bulletin (*Sydney*), *8 Nov 1944.*

ordinated to the primary purpose. Consequently, it was not until a supplementary register in June 1943 that an effective statistical instrument was also created. In practice the primary purpose dictated that statistical analysis should take second place in time, as well as in the handling of the individual cards.

These cards recorded essential personal data, addresses, occupations and the like. The returns secured were virtually complete, not least because of the compelling national danger; in addition the register was associated with the issue of identity cards (modelled on the British) and the securing of these was a strong incentive to register, especially as consumer rationing was generally expected, and would require presentation of the identity card. Elaborate procedures were devised for keeping the information up-to-date, and on the whole this was successful, except for data on occupations. Indirect sources were used to record changes of occupation and, while these covered a substantial part of the field, the area of no-information was large until June 1943. A further change, in April 1943,[5] was to require registration of children aged between 14 and 16. There was a good deal of misunderstanding of this step which was intended to fill a major gap which the mere passage of time was producing; an incidental reason was to facilitate rationing.

The civilian register provided information—rapidly becoming inaccurate on occupations, as noted above—about numbers of persons in various categories and a localised administrative record for dealing with them. The other half of the problem of information about manpower was to estimate the probable needs for the Services and essential industry. At least the broad order of magnitude of these needs was assessed during April 1942.

This assessment took its origin in a submission to the War Cabinet by the Minister for War Organisation of Industry, calling for a review of "war commitments in the light of altered conditions".[6] Much more followed ultimately from this submission than an assessment of manpower needs. It called in question continuation of the tank programme, and of some parts of aircraft production now that such arms were to come from the United States of America; foreshadowed a need to increase food production to supply armed forces based in or supplied from Australia; and questioned whether a stage was not arriving when the Australian army might be larger than could be effectively equipped. Such questionings were, in general, not yet acceptable, but they were stated thus early; immediately, the chief outcome was adoption of machinery for periodical review along such lines, later to be formalised as the War Commitments Committee.

THE USE OF DIVERTED MANPOWER

On manpower needs as these could be foreseen in April 1942 a departmental committee representing the Services, the Manpower Directorate, and the Departments of Supply and of War Organisation of Industry

[5] Statutory Rules 1943, No. 98, 15 Apr.
[6] War Cabinet Agendum 197/1942; considered on 9 Apr.

furnished an incomplete estimate. Covering only the Services, government munitions establishments and annexes, shipbuilding and aircraft production, they concluded that needs to the end of 1942 were:[7]

	Men	Women	Persons
Army	127,938	17,704	145,642
Navy (including Civil)	10,000	—	10,000
Air Force	46,673	5,376	52,049
Munitions (Government Factories, Annexes and Shipbuilding)	23,075	19,295	42,370
Aircraft Production (including maintenance for Empire Air Training Scheme etc.)	11,836	6,182	18,018
	219,522	48,557	268,079

To these must be added 50,000 men for the Allied Works Council, making a grand total of 318,000 persons to be secured, *for these purposes alone*, within less than eight months. Assessment of essential manpower needs in other employment was not undertaken; it would have involved a great deal of guessing and apparently the Committee thought the implications were painfully clear without further elaboration.

Whence might such numbers be secured? It was estimated that the remaining unemployed (perhaps 18,000) would be for practical purposes, completely absorbed by June. Natural increase—that is, juveniles reaching working age—totalling 32,000 might yield that number by December. "Not occupied", taken as wholly women, might be transferred to employment, 20,000 by June and another 60,000 by December. In all, labour reserves might yield 130,000 by the end of the year. For the gap between needs and reserves, the Committee speculated on the activities from which labour might be transferred, but these were clearly only speculations, and members contented themselves with voicing a doubt as to whether the total needs could in the end be met. That, they warned, demanded review and perhaps recasting of commitments in the next few months.

Whatever might then prove to be needed, the immediate conclusion was starkly expressed by the Committee:

> the situation can be met by the following methods only:—
> (a) a great increase in the employment of women on work previously regarded as the preserve of male labour;
> (b) a very severe reduction in the production of goods and services for the civilian market.

The recommendations of the Committee, as reformulated by the Cabinet sub-committee consisting of their ministerial chiefs, taken along with the prompt decisions of the War Cabinet, summarise policy and attitudes at the highest political and administrative level, as they had emerged from the shocks of the first months after the Japanese attack. (The main recommendations are quoted and annotated with the War Cabinet decisions.)

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[7] Committee report of 2 May 1942.

. . . 6. The sub-committee of War Cabinet endorses the following recommendations of the Departmental Committee:

(a) That there should not at present be any restrictions in the plans for the expansion of the Armed Forces or in the Munitions, Shipbuilding and Aircraft Production Programmes, but that the whole of the commitments in respect of manpower should be kept constantly under review by the Committee of Ministers and by the Departmental Committee, the latter acting through a smaller sub-Committee consisting of: the Director of War Organisation of Industry; the Adviser to the Minister for Supply and Development; the Director-General of Manpower.

[Approved.]

(b) That there should be an immediate and progressive reconciliation between the proposed Army and Air Force establishments, and the equipment becoming available through the Munitions programme and from other sources.

[Approved in principle, provided there shall be no variations in the objectives of strength and organisation of the Forces as laid down by War Cabinet, without the authority of the latter.]

(c) In order that a complete review may be made of commitments and projects for the Allied Works Council and Commonwealth and State civil works, the Departmental Committee be extended to include the Director-General of Allied Works and the Co-ordinator-General of Works.

[Approved—but in lieu of the word "review" . . . substitute the words "survey from the manpower aspect".]

(d) That all export production should be reviewed, as there is no justification for retaining manpower in the production of products that are not required for war or other essential purposes.

[Approved subject to the addition of words "by Australia or our Allies" after "purposes".]

(e) That the repair and maintenance of existing ships required for immediate servicing should take precedence over all constructional work now in progress, and that the construction of further new ships should not be commenced (even though already approved) without being re-examined by the Committee from the manpower viewpoint. The sub-Committee of War Cabinet urges that this suggestion be rigidly followed.

[Approved.]

(f) That the maintenance of combat aircraft should take precedence over new production, irrespective of whether the production projects are long or short range. (It is understood that this is already the practice.)

[Approved. This policy has already been adopted.]

(g) That in order to meet those portions of the programmes which fall within the next two or three months, the following measures *must* be implemented:

(i) Provisions for the utmost efficiency in the use of labour resources and particularly of skilled workers by the Armed Forces, War Production Departments and Industry generally.

[Approved in principle. Proposals are to be submitted by the Service Ministers indicating the best manner of giving effect to this principle.]

(ii) Provision that the National Service Officer under the Director-General of Manpower be the only channel through which labour may be engaged and allocated.

[Approved.]

(iii) Drastic curtailment of inessential activities throughout the whole economy, including Public Works and Services, factories, commerce and finance.

[Approved in principle. Specific proposals are to be considered by the Production Executive and the Minister for War Organisation of Industry is to consult the Prime Minister regarding those to be submitted to Full Cabinet.]

7. The sub-committee of War Cabinet has decided that the recommendation of the Departmental Committee that the Director-General of Manpower be empowered to direct labour (particularly skilled labour) to specific tasks under the general oversight of the Departmental Committee should be further considered at a subsequent meeting.

[Noted.]

9. The sub-Committee urges that before any proposals involving a further demand upon manpower resources are submitted to War Cabinet or Cabinet for approval, they should be referred to the sub-Committee of Ministers for consideration.

[Approved subject to the addition of the words "In respect to Allied works, the reference to the sub-committee shall only be for the purpose of information", after the word "consideration" As in 6(c) the review is to be confined to manpower aspects.]

10. The sub-committee is concerned with the duplication of control over manpower as a result of recent National Security Regulations, particularly in respect of the Allied Works Council and the powers vested in the Director-General of Allied Works. The Committee has instructed the departmental committee to review this matter and report at an early date.

[Any report of the Departmental Committee on this aspect is to be made in conjunction with the Director-General of Allied Works, whose appointment to the Committee is approved under paragraph 6(c) above.]

. . .

12. The sub-committee decided that, pending the completion of investigations which are in progress in connection with rural industries, no further call-up for the Army should be made in the case of men engaged full-time in primary production activities in rural areas. The necessary instructions have been issued accordingly, and the matter will be reviewed from time to time.

[Noted.][8]

MANPOWER AS A FACTOR IN OTHER WARTIME ISSUES

Meanwhile there had been other developments some aiding, some complicating, the operations of the Manpower Directorate. The emotional shock of Japanese attack had facilitated the disemploying function of the Department of War Organisation of Industry, and it was busy with prohibitions on non-essential production and rationalisation plans. As these developed it became clear that they often demanded joint action—rarely formally in co-operation—of both the Director-General of Manpower and the Department of War Organisation of Industry. That department could formulate a rationalisation plan to release labour, but its effective implementing was apt to be evaded or postponed until actual loss of labour was inflicted by the Manpower Directorate. Often, therefore, the chief advantage of these rationalisation plans was to guide the Director-General of Manpower as to the amount of labour which ought to be left to an industry and to aid the industry in reorganising to operate with a smaller labour force. The teeth in rationalisation were usually those of the Director-General of Manpower.

Hours, holidays, amenities, rates of pay and other conditions of work

[8] War Cabinet Agendum 197/1942, Supplement 1, dated 12 May; War Cabinet Minute 2160, 26 May. Note in the decisions the deferment of labour direction, and the concern that freedom of action of the Allied Works Council should not be impaired.

were the concern of a variety of other authorities whose activities could influence the work of the Directorate.

Broadly, physical conditions of work either remained the province of State Departments of Labour or, so far as Commonwealth policy was involved, became a major interest of the Department of Labour and National Service. Much of this Department of Labour and National Service activity was addressed to immediate war problems and concerned, for example, amenities to facilitate the employment of women, housing of war workers, factory canteen services, health and safety, improved industrial lighting and similar matters. It was, however, also a subject which had special attractions for the Minister.

Holidays were a thorny topic. Public holidays were in peacetime a matter for State governments, between whom practice was divergent. Annual and sick leave and special occupational holidays were enshrined in awards, industrial agreements and employment contracts. The wartime power of the Commonwealth to override all other authority was unambiguous, but needed care in exercise. Nevertheless, the interruption to war production could not be ignored. The first step came in mid-December 1941, with regulations[9] which provided that over the Christmas-New Year period only three public holidays should be permitted, and no annual leave should then be taken. (The coincidence of a long vacation for schools, the Christmas-New Year break, and mid-summer had made this the favoured Australian holiday season.) Later the Australia Day (26th January) holiday was abandoned, followed in March by restriction of public holidays throughout 1942. Just before Christmas 1941 came the first move for suspension of mid-week sporting fixtures (which required State co-operation), because they were believed to be a major cause of absenteeism.[1] At the same time the need to break with the practice of a general shut-down of industry over the weekend (by "staggering" hours) was first mooted by Curtin.

Housing of war workers had been the subject of National Security Regulations in July 1941[2] the chief provisions being the prevention of eviction of war workers, the provision of power to require owners to let houses to war workers and the extension of fair renting to such accommodation. Primarily the prescribed areas to which these regulations applied were those in which munitions factories were being erected—in New South Wales, Lithgow and the surrounding Blue Mountains area including Blackheath and Katoomba, and in Victoria, Footscray and Essendon. Later Coburg, Brunswick and Port Melbourne were included, and Bathurst when that factory was erected. Early in 1942 Ballarat, Bendigo, Castlemaine and Geelong were prescribed.[3] The regulations had been revised in August 1941,[4] primarily to create the Commonwealth War Workers Housing

[9] National Security (Supplementary) Regulations, Statutory Rules No. 297, 16 Dec 1941.

[1] Restriction of absenteeism and of waste of resources was the primary purpose, but Curtin's puritanism had some part as it had also in other restrictions, notably those on liquor, where a desire to limit waste and a source of lost time was mixed up with more emotional considerations.

[2] Statutory Rules 1941, No. 169, 18 Jul.

[3] Proclamation of 18 Feb 1942.

[4] National Security (Housing of War Workers) Regulations, Statutory Rules 1941, No. 207, 26 Aug.

Trust with wide powers to buy and sell land, and to give financial assistance. In the early months of 1942 the main additions to the regulations extended the control of rents charged war workers and protected them still further from eviction.[5] Estate agents in June 1942 could be required to give a list of houses or accommodation known to be vacant.[6]

A war worker was essentially a munitions worker and the administrative key to the advantages given by the regulations was a certificate to this effect. Subsequently[7] the definition was extended to cover repair and overhaul of munitions and ultimately the Minister could declare anyone a war worker for the purposes of the regulations.

This emphasis on munitions employment was apparent in other matters, for example in the provision of casualty rooms and first aid equipment. An Industrial Welfare Division had been created within the Department of Labour and National Service during 1941 and it was for its first two years concerned with munitions and aircraft establishments. Welfare officers were trained and the installation of food services encouraged.

In July[8] the Minister for Labour and National Service became responsible for regulations covering industrial lighting, the main purpose being the compulsory introduction of standards in accord with the "Australian Standard Code for the Interior Illumination of Buildings by Artificial Light" produced by the Standards Association of Australia. The Industrial Welfare Divison of Labour and National Service was ultimately to become three sections—Food Services, Technical Services, and Factory Welfare—and to be responsible for policing the hours of work regulations and the publication of manuals, bulletins etc. on cafeterias, amenities, industrial hazards and lighting. Moreover its activities were to extend to all sections of industry, not just munitions, but this is a matter for consideration in the general approach to post-war reconstruction.

WAGES

The Economic Organisation Regulations of February 1942[9] were intended as the framework of a comprehensive economic plan and are discussed elsewhere as such. As an integral part of that plan there was included a "wage-peg" which was in some respects an aid to Manpower activities. It was not a rigid pegging of wages, both because of the official qualifications and because it could not be completely enforced. But it did to a significant degree limit the freedom of employers in less essential industries to retain labour by increasing remuneration, and limit the movement of employees. Whether this outweighed the contrary effect of free wage changes in drawing labour to essential activities is a moot point.

Under the Economic Organisation Regulations of February 1942 wages were, broadly speaking, supposed to be pegged, with provision for the Court to vary rates in certain cases where it was established that they were

[5] Statutory Rules 1942, No. 17, 28 Jan.
[6] Statutory Rules 1942, No. 256, 4 Jun.
[7] Statutory Rules 1942, No. 354, 14 Aug, and 1943, No 106, 28 Apr.
[8] Statutory Rules 1942, No. 302, 8 Jul.
[9] Statutory Rules 1942, No. 76, 19 Feb.

anomalous. The Minister for Labour and National Service had to approve such variations, which irritated some judges.[1] The practice adopted was for the judge concerned to determine first if there were a *prima facie* case that the rates were anomalous and only then to conduct a hearing. Of the applications for variations in awards in the three months after the introduction of the regulations nearly all were dismissed because they did not meet the "anomaly" test;[2] but as early as 25th March the regulations were amended listing six situations in which the restrictions of the regulations were not to apply, including that of a declaration by the Minister that he was satisfied an anomaly existed.[3] Partly for this reason, partly because unions learned what under the regulations the Court would accept as an anomaly, many more variations were approved in the next six months.[4]

ALIENS

Efforts to draw into the labour force groups not previously available concerned mostly aliens and women. There had been recurrent proposals from the uninformed that prisoners of war (at this stage mostly held on behalf of Britain) should be put to useful work. But there were considerable difficulties which had so far prevented any effective employment of prisoners, and which continued throughout the war to limit severely their usefulness. (The Japanese prisoners who came later were never a source of labour.) Prisoners, by international convention, could only be employed on non-war work; they required guards, which meant that they must be amenable to discipline, and used where groups were employable —otherwise the numbers of guards matched the number of employed prisoners; they must volunteer for work. Many prospective employers lost interest when they discovered that while the prisoner received very low pay, the employer had to pay full wages. The matter was actively canvassed in January-February 1942 because harvesting—particularly of fruit—coincided with large army call-ups, and the cancellation at the end of January of seasonal leave (without pay) for militiamen to assist with harvesting. Arrangements to use prisoners of war for fruit picking in

[1] For example Mr Justice O'Mara (*Commonwealth Arbitration Reports*, Vol. 47, pp. 205-6): "I am satisfied that the award should be varied as asked and in ordinary circumstances effect would forthwith be given to the Court's decision. However as a result of the regulations it is necessary that the Minister should reach a finding on the question of whether the parties were engaged in negotiations as stated and then whether he should approve of an award of which the Court also has to approve. Compliance with the formalities of this regulation involves a delay in the finalism of a simple matter and in my opinion is a useless waste of the time of the Court and its officials. It is a procedure for which I can see no good reason and certainly no reason which can be justified on the only ground upon which it could be justified namely of being 'necessary or convenient for the more effectual prosecution of the present war' or 'for the safety and defence of the Commonwealth during the present state of war' . . . . The issues likely to be raised under the sub-regulation mentioned are limited in number and are not of such an economic or industrial importance that the Court should not be left to finalise them without having to waste time in the manner I have indicated. It is another instance of what is becoming only too manifest in regulations which are being passed in the name of national security namely a duplication of action and authority . . . ".

[2] As examples: *Commonwealth Arbitration Reports* Vol. 46, 9 Apr (Agricultural Implement Workers; Timberworkers); Vol. 47, 4 May (Sheetmetal Workers), 13 May (Metal Trades), 4 Jun (Builders' Labourers).

[3] Statutory Rules 1942, No. 145.

[4] Cases reported in *Commonwealth Arbitration Reports*, Vol. 47. As examples see 26 Jun (Shipwrights; Australian Engineering Union); 31 Jul (Fruit Growing); 7 Aug (Paint Industry); 14 Aug (Shipwrights); 28 Aug (Australian Engineering Union).



"All right—tenner a week or I work in a munitions joint!"

Bulletin (*Sydney*), *8 Apr 1942.*

Victoria came to little, and that particular problem was met by special releases on short leave from the army.

At the same time (end of January) efforts were made to induce friendly civilian internees, held in Australia on behalf of Britain, to enlist in the Army or to accept employment in essential industry. More difficult questions were raised by aliens living freely in Australia. A substantial group were refugees whose freedom from obligations imposed on Australians was arousing hostility. Few had accepted the opportunity to enlist in the Services, including the Army's Labour Corps. Accordingly in March they were made liable to compulsory service in the Labour Corps,[5] and for the Allied Works Council.[6]

The numbers so obtained, however, were far below those expected, not perhaps by informed authority but by members of the public who imagined large numbers of aliens living in safety and comfort while Australians were conscripted. By June 1943 the Allied Works Council could report that up to that time of the 12,000 aliens (other than prisoners of war and internees) registered in Australia, 8,000 were called up for service with the Council, and of those 42 per cent were exempted by Manpower; 21 per cent were classed medically unfit; 5 per cent were exempted on other grounds; and 32 per cent (2,521) were actually enrolled for work.[7]

The effects of enlistment of medical practitioners were already being felt by the civil population. Among the refugees were a number with medical qualifications and, from one point of view, their services could relieve the shortage; but the qualifications of some were open to doubt, and permitting them to practice involved complex issues.[8] In February an Alien Doctors Board was created, to issue to alien applicants licenses to practise either generally or subject to limitations; the interests of the States were protected by establishing examining committees drawn from medical professors in each (State) university.[9] Within two months forty licenses (26 general, 14 specialist) had been granted. The need for fluency in English was given as the reason why more were not approved.

WOMEN

Aliens, however, were not a major source of labour compared with the numbers of Australian women who must be brought into employment if war commitments were to be realised. Here the main lines of policy were three. Women clearly could be used in the Services in replacement of men in many occupations, without challenging the tradition that women were not combatants; what was required was to persuade the Services to accept

[5] Defence (Labour Corps) Regulations, Statutory Rules 1942, No. 42.

[6] (National Security Aliens Service) Regulations, Statutory Rules 1942, No. 103, 6 Mar, conferred power to direct aliens on the Minister for the Interior (responsible for the Allied Works Council) as well as the Minister for Labour and National Service.

[7] *Report* of Allied Works Council, 26 Feb 1942-30 Jun 1943, pp. 100-101.

[8] The issues were complex indeed, and have not been fully resolved since the war. Some sections of the Labour movement were hostile to the British Medical Association ("the B.M.A.") as an exclusive organisation (an odd attitude for trade unionists), and saw only hypocrisy—there was certainly some—in criticism of the qualifications of European-trained doctors. Registration was a matter for the States; among difficult questions they had to consider was, for example, possible danger to the recognition of Australian medical registration in Britain and elsewhere.

[9] National Security (Alien Doctors) Regulations, Statutory Rules 1942, No. 52, 11 Feb.



"Now, before you leave us, Sarah, I must know how you peel the eggs before frying them."

Percy Lindsay in Bulletin *(Sydney), 3 Feb 1943.*

the innovation—made easier by British example—and to organise themselves to make the fullest possible use of women.

The vital step had already been taken, before Japan attacked, with the decision to establish three women's Services:[1] the Women's Auxiliary Australian Air Force, the Women's Royal Australian Naval Service, and the Australian Women's Army Service. Initial establishments included 600 W.A.A.A.F. and 1,600 A.W.A.S.; by the beginning of April the A.W.A.S. establishment was raised to 6,000. The Women's Services were thus, once the ice was broken, readily accepted and were to expand.

The women's Services, however, presented few problems and those limited ones. Employment of women in industry generally was a very different matter. There was strong resistance—not entirely from men—based upon convention and prejudice. Industry had offered only limited employment to women in the past, and lacked facilities for employing large numbers; individual employers could be deterred from seeking women employees in wartime merely by the cost of providing essential amenities if they believed women would be available only for the duration of the war. Trade unions in general resisted the extension of women's employment for obvious reasons: women were competitors, the more serious because they were paid less. Some feminist organisations complicated the issues by seeing wartime employment of women as a lever for securing, permanently, equal pay and admission of women to men's occupations. Whatever justice there may have been in these claims, forcing them forward was not the way to promote the employment of women. Claims for entry as a matter of right implied permanence, which could only arouse resistance from male unionists. Equal pay could discourage employers if they did not regard women as equally efficient, especially as, in that form, the claim clearly foreshadowed a permanent rise in women's wages relative to men's. On the other hand, equal pay had always attracted some male unionists on the logical ground that increasing the cost of female labour relative to male would make female labour less attractive to employers. In the event, the policy adopted was in principle equal pay, which met feminist pressure and reassured male unionists, but equal pay in a form which gave employers some assurance against excessive cost.

These problems were attacked by the second line of policy: that of removing obstacles to civil employment of women. The third was to induce women to seek employment. To some extent, what was needed was merely the opening of employment opportunities coupled with wage attractions and publicity. But these were to prove insufficient and by August some measure of compulsion was to be official policy.

That, however, was in the future. The immediate problem was to make employment available. On 15th December 1941 Curtin announced:

> Full Cabinet decided today, as a war measure, to approve of the principle of the extensive employment of women in industries where men were not available in sufficient numbers to attain the scale of production approved as a war objective. A sub-committee of Cabinet has been appointed to confer with representatives of the

[1] On the reluctance to establish these see P. Hasluck, *The Government and the People, 1939-1941* (1952), in this series.

trades union movement and employers in order that an acceptable plan may be developed immediately so that regulations may be promulgated, where necessary, to enable the employment of women in occupations and under conditions which might be contrary to peace-time determinations.

The Government will give an undertaking that all women employed under the conditions approved shall be employed only for the duration of the war, and shall be replaced by men as they become available. Cabinet acted upon a submission by the Minister for War Organisation of Industry, which included data prepared by the government departments concerned and other sources. Because of the present emergency conditions, Cabinet could not await the normal detailed investigation. Departments affected are the Services, Munitions, Aircraft Production and Supply and Development; together with outside industry. The sub-committee will deal with the matter with full regard to prevention of an invasion of men's work by cheap female labour.[2]

The careful repetition of assurances against permanent commitments reflects the resistance that had to be overcome.

On 17th February 1942 E. J. Ward[3] submitted to the Full Cabinet a set of proposals for implementing the policy:

The employer to make an application to the Court to be allowed to employ women on designated work.

The Court to be required forthwith to call a compulsory conference of the employers and unions concerned. The conference to agree, or failing agreement the Court to decide the following:

(a) Whether the work or operation to be performed are: 1. work or operations already recognised in awards as men's work; or 2. new operations.

(b) If held to be new operations, whether they are: 1. operations similar to those customarily performed by men; or 2. operations similar to those customarily performed by women.

(c) The marginal rates which should be paid in respect of the new operations whether held to be women's work or men's work.

(d) The general conditions to be observed in relation to exit from any male occupation at the end of the war.[4]

If (a)(1) or (b)(1) applied employers were to show that sufficient men were not available and were to pay the female basic wage plus full margin. A women's post-war benefit fund was to be established to receive the difference in such cases, between the male and female basic wage and as well, in *any* industry where the female award was below sixty per cent of the male basic wage, the amount of this deficiency. (The notion was that the fund would be used for the benefit of women forced to leave industry after the war; the idea was still-born.)

Cabinet approved the principle and delegated to the Minister and the Attorney-General the drafting of regulations consistent with the Economic Organisation Regulations. On 2nd March the Employment of Women Regulations were issued,[5] closely followed by a new and more far-reaching set.[6] The first were explicitly temporary, pending issue of the second, and authorised in sweeping terms employment, on munitions or aircraft production, of women on work ordinarily reserved by law or custom for males,

[2] *Digest of Decisions and Announcements*, No. 11, p. 13.

[3] Hon E. J. Ward, MHR 1931 and 1932-1963; Min for Labour and National Service 1941-1943, Transport and Ext Territories 1943-1949. Of Sydney; b. Sydney 1899. Died 31 July 1963.

[4] Full Cabinet Agendum 197.

[5] Statutory Rules 1942, No. 92, 2 Mar.

[6] Statutory Rules 1942, No. 146, 25 Mar.

at rates of pay to be provisionally fixed by either Minister and finally determined (retrospectively) by the foreshadowed second regulations.

These, when they appeared on 25th March, created a Women's Employment Board, the views of whose Chairman,[7] were dominant since the other four members represented employers and employees equally. Irrespective of provisions in any existing State or Federal law or award, the Board might determine in certain cases whether females might be employed, and particularly the appropriate rate of pay. The cases concerned were those in which no industrial award for female wages existed and an employer wished to employ women. The Board was required to specify rates of pay as a percentage of male rates after consideration of relative efficiency of men and women (the equal pay principle). It might not reduce female rates actually being paid nor award more than 100 per cent of the male rate. More important was a prohibition on its awarding less than 60 per cent of male rates. It had been common practice of industrial tribunals to make basic female rates 54 per cent of male rates, so that this prohibition implied that the male future was to be protected by preventing women accepting low rates of pay. The Board was to have some constitutional troubles before it was firmly established, but the main principles, and especially that of pay as a percentage of male rates based upon estimated relative efficiency, persisted. The way to large-scale employment of women on men's work was open.

An award was made by the Board for women in munitions replacing men on men's work or engaged on work not previously done in Australia. Such women were to be paid, during a probation period of two weeks, 60 per cent of the male rate or the rate agreed upon in an agreement between the Minister for Supply and Development and the unions on 4th December 1939, whichever was the higher. After the probation period the rate must be 90 per cent of the male rate. In subsequent months the Board made many deviations from which a broad pattern emerged. Thus employment of women in some cases was not approved—on heavy manual labour, work in abattoirs, and where amenities were not available. Generally the principle of 60 per cent of the male rate during a probation period was adopted, but for employment beyond this period rates varied widely. Broadly where women were largely replacing men on work in which men and women were already competing, the tendency was to hold down women's rates; where, as was very commonly the case, the work was of a kind not previously done in Australia or hitherto done only by men, the women's rates were a high percentage of the male. Thus for clerks the percentage was 66⅔; for railway workers (porters and other station staff, for instance) 80; for paper mills 85; for lamp manufacture 90. The award of 90 per cent of the male rate became very common. But doubt was cast on all this by the disallowance by the Senate of the regulations in March 1943.[8]

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[7] Mr Justice Foster was appointed.

[8] The checkered history of the Board from Mar 1943 to its abolition in Oct 1944 is recounted in Chapter 19.

MANPOWER FOR WORKS

The Japanese attack and the later basing of American forces on Australia brought urgent demands for construction work: roads, airfields, camps, fortifications, harbour works and a wide variety of other works. All were urgent. Some of the most urgent were fortunately never used for the purpose contemplated, but that purpose was defence and counter-attack against invasion; when the works were planned and executed the need for early completion was insistent. In total the works concerned were, for Australian constructional authorities, a gigantic task. Moreover, a large proportion were in remote areas, often in unfavourable climates.

These were among the factors which dictated establishment of the Allied Works Council which is considered more fully elsewhere. In relation to manpower, they represented a demand for labour in substantial numbers, and a number which would brook no delay. That demand was, moreover, for labour with special qualities. Skilled tradesmen were a vital section of the need; the larger part must be capable of sustained heavy manual labour; the remoteness and primitiveness of many of the construction camps pointed to concentration on males, even for light work. Basically the need was for men of the type most wanted by the Army, except perhaps that the Services wanted youth as well.

Many of the works involved were already under construction, by Commonwealth agencies, by State and local government bodies working for the Commonwealth, and by private contractors. There the need was to hold the labour then on the jobs, augment it to speed up completion, and then transfer it to other construction. For extensive new works net additions to the labour force required were large.

As already noted, aliens called up for service were made available to the Allied Works Council. Now in April 1942 the Civil Constructional Corps was created.[9] It was to be drawn from three broad groups of persons. First there were workers engaged on construction jobs which had passed under the control of the Allied Works Council; these were to be enrolled on the job, an action which initially made little change, but did ensure that the labour was held in construction and could be transferred to other jobs in due course. Volunteers were welcomed. But it was clear that these two sources must fall short of needs; initially the only provision they made for new works was the volunteer group. Hence the regulations in April conferred powers of compulsory enlistment on the Director-General of Allied Works.

These powers were sweeping, in accord with the persistent concern of the Government that these works should be carried through quickly, and especially that works to serve American forces based in Australia should receive the highest priority. Powers of compulsory enlistment applied to men aged 18 to 60, provided they were not enlisted in the Services, or employed in a protected undertaking. These were the same age groups as those from whom men might be drawn for the Services. If such men were

[9] National Security (Allied Works) Regulations, Statutory Rules 1942, No. 170, 14 Apr.

called up for the Services, the Manpower authorities could veto the enlistment in the interests of civil employment. No such veto applied to call-up by the Allied Works Council. Here, on paper, was a basic conflict. Two authorities, the Army and the Allied Works Council, in principle had competitive call-up powers; the Director-General of Manpower had the responsibility and power of holding the scales between the Services and industry, but the Allied Works Council was nominally unrestrained; the Director-General of Manpower might conserve essential labour for particular industrial projects only to see it whisked away by the Allied Works Council.

In fact conflict did not develop, mainly because on each side was a strong personality acutely conscious of his own responsibilities and powers, but also intelligent; each saw that compromise must be achieved, and was able to see the problems of the other as well as his own. Accordingly, after some brief difficult moments, a working basis emerged by agreement between Wurth and Theodore.[1] Perhaps the most striking symbol of the difference between 1942 and 1941 in manpower policy was that, in its origin, this was direct agreement between two senior administrators, embodied neither in Cabinet minute nor regulations.

The Allied Works Council agreed that, except for special needs for skilled tradesmen, its labour call-ups would be restricted to men aged 45 to 60. This ensured that men otherwise available to the Army would not be taken. In August 1942, the age limit was reduced to 35, which made little difference so far as the Army was concerned. The age limit also reduced the pressure of the Allied Works Council on civil employment, while the prohibition of call-up from protected establishments, embodied in the original regulations, gave further safeguard. But it did so at the cost of concentrating potential Allied Works Council call-ups on a restricted field, and enterprises in that field might be crippled by call-up of mature experienced workers from key posts. The agreed safeguard was that the Allied Works Council would not call up men whom the Director-General of Manpower declared to be essential in their existing employment.

In execution the agreement worked efficiently. Men enlisted on the job initially passed over to the Civil Constructional Corps more or less automatically, although later younger men were combed out for the Army. Volunteers were "manpowered" in much the same way as volunteers for the Services. For the essential group of those compulsorily enlisted (over the next year they were to provide one-third of the Corps) the Manpower Directorate supplied the Allied Works Council from time to time with detailed lists of men available for call-up.[2]

The sources from which the Corps, as it was in June 1943, was recruited are summarised in the following table.

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[1] Hon E. G. Theodore, MLA Qld 1909-25; Premier and Treasurer 1919-25; MHR 1927-31; Treasurer 1929-30 and 1931; Director-General Allied Works 1942-44. Company director; b. Port Adelaide, SA, 29 Dec 1884. Died 9 Feb 1950.

[2] The Allied Works Council was then left to determine (for example on medical grounds) whether individuals should be enlisted.

State or Territory	Volunteered	Enrolled on the job	Called up	Total
N.S.W.	3,482	10,948	8,736	23,166
Victoria	2,111	5,541	3,514	11,166
Queensland	1,787	11,746	3,280	16,813
South Australia	537	6	435	978
West Australia	509	113	406	1,028
Tasmania	46	—	248	294
Northern Territory	71	—	2	73
	8,543	28,354	16,621	53,518

Souce: Wurth, *Control of Manpower in Australia*, p. 147.

These were numbers at a point of time. Total call-ups were much larger since, for a variety of reasons, discharges ran into some hundreds a month. One important factor was that the men were older than the general working population (itself "aged" by the withdrawal of young fit men for the Services) and were engaged on work of a more arduous nature.[3]

THE UNIVERSITIES

As part of the programme for strengthening the forces after the Japanese attack, the position of university students was modified. Certain classes of students, mainly those studying medicine, dentistry, engineering and certain science subjects[4] had been reserved, while all other male students had been called up for training at times which did not interfere with studies. At the end of December it was announced that the latter practice would be suspended and such students became liable for full-time service, except that the universities were invited to nominate a limited number for reservation.

However, the universities were not happy with this last provision, the purpose of which was apparently to maintain a small flow of highly trained graduates. (The medically unfit and women were still free to undertake university work.) A conference on 19th January 1942, between the universities, the Army, the Departments of Labour and National Service and of War Organisation of Industry explored this and other problems.

[3] From Wurth, *Control of Manpower in Australia*, p. 147:

	Age Distributions—at 30 Jun 1943			
	18-34	35-44	45-60	Total
Civil Construction Corps	15,712	16,153	18,949	50,814
	31%	32%	37%	100%
All civilian employees	421,223	352,581	414,948	1,188,752
	35%	30%	35%	100%

A table on p. 102 of the *Report* of the Allied Works Council, 26 Feb 1942-30 Jun 1943, gives a further breakdown of the above figures:

18-34	unmarried	6,838		
	married	8,874	Total	15,712
35-44	unmarried	3,338		
	married	12,815	Total	16,153

The *Report* brings the total for the Corps to 53,518 by the inclusion of 16-17 years 69; and 60 years and over 2,635.

[4] And, as well, senior honours students of languages, and final-year students in economics and mathematics.

During its meeting the Adjutant-General agreed that anyone entering a university under the age of 18 would be permitted to complete the academic year in which he became 18, and that the Army desired the universities to refuse enrolment in "unreserved" courses of male students over 18 unless they were medically unfit for military service. This, for some universities, was not legally possible, and one result of the conference was the issue of regulations[5] empowering the Minister for Labour and National Service to set quotas for any course, to which admission would be by merit as determined by competitive examination.[6] In practice quotas were prescribed for reserved courses only, and initially were based on the previous year's enrolments. Legal provision was also made for the nomination for reservation of a limited number of male students in otherwise unreserved courses. Women were not affected.

The next protracted phase was touched off by a letter in the Melbourne *Age*.[7] Government and university spokesmen had stressed publicly that the continuance of university studies even in unreserved courses was important, and that entry into the reserved quotas was preparatory to vital service later. A parent complained that the cost of university courses confined this opportunity to the children of the well-to-do, and this letter attracted the personal attention of the Prime Minister. His requests for advice evoked response from only one department, War Organisation of Industry, but that was a warm one.[8] Initially that department properly concentrated on the manpower aspects of the question (education was a State function). In a submission to the Production Executive on 21st September it reported the results of inquiries which showed on the one hand a high percentage of examination failure among students and on the other the reality of the financial barriers to university education. Some scheme of Commonwealth financial aid, it was suggested, would increase the quality of students and so raise the output of graduates, without increasing the total number of students withheld from the Forces. The department was also concerned with other problems of government relationships with universities, which were rendered difficult by a genuine desire to avoid political interference with universities and the complexity of academic arrangements in six universities. At this stage the department proposed a small Universities Commission to act as intermediary between government departments (especially the Directorate of Manpower) and the universities and which, it was suggested, could investigate the question of financial aid.

The Prime Minister, however, indicated that he wanted more specific proposals for financial assistance to students from poorer families, and

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[5] National Security (Supplementary) Regulations, Statutory Rules 1942, No. 36, 2 Feb.

[6] Australian universities normally admitted all who passed their matriculation examination; the University of Melbourne also accepted certificates from a small number of schools. No university had previously restricted numbers accepted, except by requiring matriculation.

[7] 26 May 1942.

[8] This department included several senior officers borrowed from university work, and one of these took a strong personal interest in the later developments.

obediently the Production Executive referred the whole question of government policy in relation to universities, with special reference to financial aid, to an inter-departmental committee.[9]

In October the committee reported with a plan for financial assistance to all students in reserved courses, together with a small number (who would also be reserved) in other courses. "There is a grave shortage of newly trained doctors, dentists, engineers and other specialists of the type trained by universities. Without remedial action, this shortage will become acute, affecting the efficiency of the Services, departments engaged in war work, and essential industry. A major reason for this shortage is the inability of a great number of able students to pay the cost of a university education." The committee was critical of the operation of the quota system in 1942, which had admitted students of poor performance in some universities while in others quotas had not been filled. It believed that, without infringing university freedom, some courses might be modified to meet war needs, and more might be done by way of *ad hoc* non-degree training. On the other hand, it took a liberal view of the need to maintain university activities over their whole range irrespective of their immediate practical use; it was partly for this reason that it made special provision for a modest number of reserved students in otherwise unreserved courses.[10]

For administration of the scheme of aid, revision of quotas, and supervision of methods of selection, modification of the classes of students reserved, and generally for mediation between government and universities, the committee adopted the earlier proposal of a Universities Commission.

Production Executive adopted these proposals on 29th October 1942,[1] providing for financial aid to all students admitted to the quotas in the Faculties of Medicine, Dentistry, Engineering, Science, Veterinary Science and Agriculture, together with special groups of students in other courses. Aid was to take the form of payment of fees, together with a living allowance which should be subject to a means test.[2] A Universities Commission was appointed under the full-time chairmanship of Professor R. C. Mills, with three part-time members. Thus was born a scheme which, as its designers expected, was to prove permanent. In the post-war period Commonwealth university scholarships continued, limitation of grants

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[9] Departments and representatives were: War Organisation of Industry (S. J. Butlin), Directorate of Manpower (I. Clunies Ross), Labour and National Service (P. W. Curtin), Treasury (G. P. N. Watt).

[10] Some university spokesmen had publicly contemplated closing of all non-essential departments; and others were partly responsible for a feeling among those students whose sense of national obligation was acute, that their first duty was to enlist. The issue was complicated by the fact that many parents undoubtedly saw admission to a quota as a refuge from call-up. Government policy had to maintain simultaneously that the ablest students were best placed in university training, and that universities could not be "funk-holes". Some university dignitaries found this as confusing as did many students.

[1] Except that the precise scale of aid was referred back for further examination; it was confirmed by the Production Executive on 13 Nov 1942.

[2] Maximum aid above fees was £104 per annum for those living at home, £143 for country students. The Treasury favoured making part of this aid by loan, but the Treasurer, J. B. Chifley, rejected the advice of his officials.

replacing limitation of numbers of students in specified courses, and grants being available competitively for any course.[3]

ASSESSING THE RESULTS

In August 1942 the inter-departmental committee which had in May estimated manpower needs of the Services and Munitions, reported again. It was a gloomy report, for its theme was: achievement was falling short of needs; for the latter half of 1942, meeting revised needs would strain not only the supply of labour but the ingenuity of administrators and the determination of the Government; satisfaction of all needs was just conceivable but improbable.

In May manpower needs had been set at 270,000 men and 48,000 women by the end of the year. By the end of June the results achieved were:[4]

	Manpower obtained in April-June 1942		
	Males	Females	Total
Navy	2,200	600	2,800
Army	46,000	4,000	50,000
R.A.A.F.	17,000	4,400	21,400
Dept of Munitions	7,000	5,000	12,000
Dept of Aircraft Production	4,700	600	5,300
Allied Works Council	13,600	—	13,600
	90,500	14,600	105,100

Superficially, this appeared satisfactory, but actual needs for this period had been 127,000, excluding the Allied Works Council (for which needs had only been guessed in May). In other words, the shortage for this period was 35,500 persons. Moreover, the farther transfers of labour went the more difficult it must be to secure more. What should have been achieved, April to June, was much more than 127,000 if the full 318,000 were to be obtained by December.

Behind these summary figures were major manpower transfers. Employment in civil production (other than domestic service and rural work) had fallen by about 140,000. In the same four months period enlistments had totalled 228,000 men and 12,000 women; war production had absorbed 70,000 men and a little under 40,000 women. Such figures were a measure of great strain on the civil sector of the economy and on the life of civilians.

It was clearly unwise to let the May estimates stand, and in any case needs could be estimated more narrowly. The chief consumers of labour were therefore asked to re-examine their needs for the second six months of 1942, in the light of altered conditions and the evident improbability of securing the numbers originally contemplated. The results were:

[3] In 1943 the wartime scheme had to survive legal challenge to the limitation of university entrance. In a curious judgment the High Court decided by a majority of one that this was a law relating to education, not manpower, but the only practical effect of the judgment was to dictate modifications in the formal procedure for exclusion without affecting the substance.

[4] Second report of departmental committee appointed "To Review War Commitments in the Light of Altered Conditions", p. 2. Report is dated 20 Aug 1942, War Cabinet Agendum 197/1942.

	Males		Females		Total		
	Balance of previous estimates	Revised estimates	Balance of previous estimates	Revised estimates	Balance of previous estimates	Revised estimates	Amount of revision
Navy	7,800	6,200	600	400	7,200	6,600	—600
Army	82,000	33,000	13,700	10,000	95,700	43,000	—52,700
R.A.A.F.	29,600	25,300	1,000	6,000	30,600	31,300	+700
Munitions	16,100	20,600	14,300	14,300	30,400	34,900	+4,500
Aircraft Production	7,200	7,500	5,500	3,300	12,700	10,900	—1,800
Allied Works Council	36,400	36,500	—	—	36,400	36,500	+100
Total	179,100	119,100	33,900	34,000	213,000	163,200	—49,800

Source: Report of the Committee, 20th August 1942.
(Discrepancies which are apparent in the figures are in the original.)

These figures, as in May, did not include private contractors to the Departments of Supply and of Munitions, but separate estimates by the Commonwealth Statistician and the Director-General of Manpower put these at 20,000 men and 10,000 women for July-December. In total, 149,000 men and 44,000 women were required. A grim footnote added that these figures made no provision for Army needs if invasion occurred or large-scale hostilities developed to the north—when the Army might demand another 40,000 men.

The committee turned to examine possible sources of male labour. Normal net natural increase entering the labour market would be about 15,000 in the six months: juvenile labour, mostly lacking skill and unsuitable for the Services, the Allied Works Council, or heavy manual labour. Unemployment was nominally 7,000 but most of this was labour in process of changing jobs; the actual reserve was put at 2,000 mostly persons of low efficiency. From the "unoccupied" 30,000 might be obtained if normal retirements were postponed.

Civil factory production demonstrated how severely the non-war sector had been squeezed. Of 700,000 factory employees, about 500,000 were directly engaged on munitions, aircraft and war supplies, leaving only 200,000 for civil production; compared with a corresponding pre-war figure of 540,000 these 200,000 meant that the cut in factory employment on civil needs was approaching two-thirds. Such factories would have to face considerable reorganisation as men were withdrawn for the Services and replaced by older workers. Ruthless rationalisation might enable 10,000 men to be replaced by women, but it was clear that in the end no net release of manpower could be imposed on civil factory production.

Gold-mining could yield about 5,000 men if current plans for virtual suspension of production were completed. Civil building had been reduced to low levels, but perhaps 5,000 men suitable for work on Allied Works Council projects could be obtained by cutting air raid precautions works in southern Australia.

Rural industries presented special difficulties. Since the outbreak of war they had lost twenty-five per cent of their male labour, and maintenance of essential food supplies and exports to Great Britain might well be threatened by labour shortage. At the same time labour was being spent on less essential foodstuffs (wheat and apples for instance). The committee concluded emphatically:

> . . . unless full advantage is taken of the opportunities for redistributing rural labour and for restricting Australian consumption to essential levels, it will be necessary either to curtail the shipment of primary products to the United Kingdom or to withdraw large numbers of men from the Army in order to provide manpower for rural industry. The Committee considers that neither of these alternatives can be contemplated, and that accordingly the necessary action must be taken without delay, and in spite of opposition from sectional interests.[5]

Even so, seasonal peak demands might require temporary releases from the Services and expansion of the new Women's Land Army. The conclu-

[5] Report, 20 Aug 1942, p. 8.

sion was that for 1942 no labour could be obtained from rural industry, although if redistribution of rural labour was enforced substantial numbers might be obtained in 1943.

The remaining source of men was "service" industries. From the public service 10,000 men might be squeezed if 5,000 women were recruited. Transport could yield none, the best to be hoped for being that further restrictions would make possible the maintenance of essential transport. Retail trade, if treated with vigour approaching brutality, might yield 20,000 men but this "represents nearly 25 per cent reduction in employment and requires an organised scheme for the extensive closing of shops". Commerce, finance, and other services could be forced to give up 50,000 men in exchange for 25,000 women, if the Government would face "radical commercial reorganisation and liquidation of many firms".

In sum, the most optimistic estimates were that 145,000 men might be extracted—if replaced in part by 40,000 women—but only if policy were unreservedly ruthless.

The proposed employment of women, to facilitate release of men, meant that the women needed were in total 80,000. Towards this net natural increase would provide 5,000 juveniles, and registered unemployed 3,000. Existing employment would on balance be a consumer of labour, except for 20,000 from retail trade. Hence the only important source for more than 50,000 women must be the "unoccupied". Unmarried women aged 14 to 59, and married women without dependent children, were estimated at 1,300,000, but regarded as unavailable. Already 800,000 women were in employment. The conclusion was painfully clear. If allowance were made for women with domestic responsibilities other than children, and for physical or other disabilities, the objective of 52,000 would mean completely exhausting the maximum possible supplies of female labour. That was not likely to be attained even with a compulsory call-up; short of compulsion the most optimistic estimate the committee could make was that 35,000 might be obtained.

There was a deficiency of 17,000 and the optimism of even that estimate is underlined by the fact that in the very special conditions of January to June unoccupied women had provided the same number, 35,000, for the Services and civil employment. Yet the attainment of the needs for men was dependent upon obtaining the women required for the partial replacement of men by women.

Without the most determined and unrelenting use of compulsion, the committee repeated again and again, these optimistic estimates, whether for male or female labour, would be quite unattainable; they contemplated that the deficiency might in fact prove to be 40,000 men and 30,000 women.

Within the broad totals there were critical shortages of skill, which alone might imperil the whole programme. It was estimated that the Departments of Aircraft Production and of Munitions alone required nearly 15,000 additional engineering tradesmen between July and December, a figure

which was more than half the 27,600 they already employed. (Both these figures included major contractors as well as government factories.)

Production Executive had on 3rd August[6] approved of restricting employment of engineering tradesmen in non-protected undertakings, except under Manpower Directorate permit, but less than 1,000 were expected to be released. The Army had proposed to release some tradesmen on leave without pay for civil employment, but they would be subject to recall at twenty-four hours notice. The Commonwealth Technical Training Scheme was turning out 600 trainees a month, but was limited by trade union reluctance to extend dilution and the unwillingness of men to undertake training which carried no overtime pay. The most that could be expected between July and December, if these obstacles were overcome, was about 4,500.

The main source must therefore be further dilution. The Department of Aircraft Production urged that removal of all restrictions on dilution would solve the shortage. The committee was sceptical, in view of the time required to negotiate dilution arrangements with the trade unions, but recommended that dilution be pressed as a matter of great urgency.

The total picture that emerged from the committee's survey was grim and uncompromising. Members reiterated at every stage of their report that only the most drastic and urgent action could make it possible to meet total needs, and their doubts whether, even so, success would be possible. But it seems that it was not yet possible for senior administrators collectively to say bluntly to the Cabinet what many of them individually believed, namely that Australian manpower resources were seriously overcommitted, and that a necessary concomitant of vigorous action to secure more labour must be critical scrutiny of commitments to bring their total within the attainable.

What the report did was to declare:

> . . . It had already been made clear that to obtain the numbers required (irrespective of skill) in the stipulated time will demand an effort of heroic proportions, and that the skilled labour position is even more unpromising.
>
> The Committee as a whole is not prepared to express its confidence that the war production programme can be carried out to schedule if it depends upon the use of skilled labour on the scale estimated by the Production Departments, while members are unanimous that the Army's contingent requirement of an additional 40,000 reinforcements cannot be supplied, failing a general change in the manpower situation, without placing an unbearable strain on essential industry. Moreover the Committee considers that however confident one may be in the success of the drastic action now recommended, it is a wise and consistent policy to take precautionary measures against the possibility of some deficiency in fulfilment of the war commitments scheduled for completion in 1942.

It therefore proposed that a committee[7] be appointed to review commitments, particularly

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[6] Production Executive Agendum 79/1942, Decision 102. (See amendment to National Security (General) Regulations, Statutory Rules 1942, No. 373, 25 Aug. The order under the amended regulations was to cover some thirty-two types, mainly metal working, toolmaking, shipping and optical.)

[7] To comprise: the Commander-in-Chief (or representative), Director-General of Munitions, Director-General of Aircraft Production, Director-General of Manpower, Director of War Organisation of Industry, Chairman of the Standing Committee of the Allied Supply Council.

the possibility of a lack of correspondence between personnel and equipment in the Services and any strategic consequences involved; the measures necessary to ensure the balanced progress of war production, in the event of a differential incidence of shortages of all kinds in the various items of the programme; the possibility of correcting any lack of balance or shortage in equipment supplied by shipments from overseas; the advisability of curtailing or eliminating any production projects to permit of concentration on the remainder; the advisability of a substantial release of men from the Services to accelerate the flow of munitions and aircraft; and the plans to be made with respect to the Army's contingent requirement of 40,000 reinforcements.[8]

The committee reiterated its May view: "every new project, and every further increase in Service programmes, will involve sacrificing some project already approved. Before endorsing any new proposals which make further calls on manpower, therefore, War Cabinet should in every instance decide which portions of the present programme are to be abandoned in order to make the necessary manpower available for the new projects".

On the other hand, the committee did not hesitate to recommend drastic action to ensure that every available man or woman was doing essential work. Specifically it proposed that the Director-General of Manpower should have "and use extensively" power to direct both men and women to transfer from one job to another, and should have powers of compulsory call-up of unoccupied men *and women.* (The latter to await proper facilities in factories etc.) The Department of War Organisation of Industry was to press ahead with industrial reorganisation, especially concentration of industry and prohibitions of non-essential production, and severe restriction of retailing, commercial and financial activities.

Major transfers of labour within the rural field must be imposed (reductions in wheat, fruit, barley and wool were stressed), and the Department of War Organisation of Industry should extend its rationalisation activities into rural industry. At seasonal peak periods the Army must release men for short period employment; the Women's Land Army should be rapidly expanded.

In view of the dependence of the whole programme on employing every available woman, special steps were urged. Welfare facilities for women in industry were to be improved; part-time employment of women should be developed; the Women's Employment Board should be assisted by subsidiary tribunals; a modified system of reserved occupations should apply to Service recruitment of women; and Service recruitment should pay regard to the uneven scarcity of women in different States (as was already established for men). Finally extension of hours of work to "the maximum consistent with health and efficiency" should be adopted.

The report went first to the Cabinet sub-committee, which submitted the whole report to the Cabinet with some qualifications of its own. Extension of hours of work, if adopted, should be general, and not confined to munitions and aircraft production. The Air Force should be permitted to continue recruiting ground staff as volunteers. (The committee had criticised this.) And there were a few other minor qualifications. But,

[8] Report, 20 Aug 1942, p. 21.

as a whole, the facts were too starkly clear for the Ministerial sub-committee to do other than submit the report for all their colleagues to consider.

This they did, in the War Cabinet, on 31st August and decided the proposals should be submitted to the Full Cabinet and their decisions, subsequently, to the Advisory War Council. But the War Council also directed that the proposed committee should include Navy and Air Force representatives, and that since the Committee's "terms of reference" were "closely related" to the Allied Supply Council, the Services Munitions Co-ordinating Committee, the Defence Committee and the Service Boards, the proposed committee was "to maintain the closest collaboration and avoid overlapping or duplication".[9]

The Full Cabinet on 22nd September approved the broad principle of the plan " . . . with the reservation that it would not be possible to carry it into effect by December 1942; that gradually and in the light of circumstances as they occur the tempo of the plan be accelerated so that it may be developed as rapidly as possible".[1] The Advisory War Council confirmed these decisions on 15th October.[2]

The Full Cabinet's direction to the proposed committee was that it report to the War Cabinet on the lines quoted earlier from the report of the original committee, and that the Director of War Organisation of Industry was to arrange a meeting "as soon as the assembly of certain necessary information . . . " had been completed.

In carrying out the direction of 22nd September that the proposed committee should include Services and Supply representatives, a letter went from the Prime Minister to these Ministers, and the Minister for the Army was asked to notify the Commander-in-Chief Allied Land Forces. This produced a firm protest from General Blamey about the terms of reference of the committee, in particular the suggestion that it should look at "the possibilities of a lack of correspondence between personnel and equipment in the services and any strategic consequences involved". The Minister for War Organisation of Industry, J. J. Dedman, was conciliatory—Blamey had misunderstood—the intention was not to interfere but to provide the Army with additional information "for consideration in connection with any plans of reorganisation". The upshot was a letter from Curtin (dated 4th January—two days before the Committee met) which told Dedman that he entirely agreed with the view "that strategical questions are not matters for consideration by the proposed Committee".[3]

The War Commitments Committee reported for the first time in January 1943. The report was a brief, compelling document with added

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[9] War Cabinet Minute 2327, 31 Aug.

[1] Full Cabinet Minute 327, 22 Sep 1942.

[2] Advisory War Council Minute 1090.

[3] By some confusion the letter to Blamey from Headquarters at Melbourne had spoken of the proposed committee as the "Strategical Committee". It was in his reply to Blamey's complaint that Dedman's letter to the Prime Minister suggested "an appropriate name for the Committee might perhaps be 'War Commitments Committee' ".

force because of the membership of the Committee.[4] Dominating the whole manpower problem was a simple piece of statistics. Commitments would require for each month, January to June 1943, 35,000 persons; the utmost that could be available was 10,000 a month. Given that simple contrast, commitments could not be fully carried out, and the attempt to carry out all might imperil the most vital.

In more detail, demands for labour were:

Net Manpower Requirements—January-June 1943

	Deficiency in 1942 programme at end of 1942		Requirements for 1943 programme January-June1943		Total requirements January-June 1943	
	Males	Females	Males	Females	Males	Females
Navy			5,000	1,000	5,000	1,000
Army	40,000	25,000	25,000	—	65,000	25,000
Air Force	6,000	—	22,000	8,000	28,000	8,000
Munitions and Aircraft Production	33,000	17,000	15,000	13,000	48,000	30,000
Allied Works	—	—	—	—	—	—
	79,000	42,000	67,000	22,000	146,000	64,000

Note: These must be regarded as approximate figures only, but should give a reasonable picture of the magnitude involved. Aircraft and Munitions production figures include the requirements of private contractors, on the basis of estimates made in the Second Report of the Departmental Manpower Committee.

Required Monthly Rate of Supply of Manpower
January-June 1943

	Males	Females
Service Recruitment	16,000	6,000
Munitions and Aircraft Production	8,000	5,000
	24,000	11,000

An optimistic assumption was that the average monthly supply (10,000 —half men, half women) of October to December 1942 might be repeated for the first six months of 1943. But this *was* an optimistic assumption. Experience during 1942 had been

	Average monthly labour supply	Percentage of women
April to June	40,000	20
July to September	25,000	25
October to December	10,000	50

The optimism of assuming that 10,000 a month would be obtainable was underlined by consideration of possible sources. Rural industries could not be expected to make any net contribution. Civil factory production,

[4] The relevant meeting was aranged by Dedman for 6th January. On this occasion the Prime Minister was in the chair, the others, present in person, being: Minister for War Organisation of Industry (J. J. Dedman), Chief of the General Staff (Lieutenant-General J. Northcott), First Naval Member (Admiral Sir Guy Royle), Chief of Air Staff (Air Vice-Marshal G. Jones), Director-General of War Organisation of Industry (G. T. Chippindall), Director-General of Allied Works (E. G. Theodore), Director-General of Manpower (W. Wurth), Director-General of Munitions and of Aircraft Production (Essington Lewis), Chairman of Standing Committee of Allied Supply Council (D. J. Nolan). War Cabinet Agendum 197/1942, Supplement 4, Appendix A.

which had lost over two-thirds of its pre-war labour force, was almost squeezed dry. Unemployment could be disregarded. Excluding married women, the unoccupied were now very few. Normal net natural increase available for employment would be 2,500 men and 1,000 women a month; and most of these too young for the Services or heavy labour; they could only assist the Services or large sections of essential industry as replacements for older workers in less vital occupations. The only significant labour source was "white collar" occupations, which had been seriously cut already, and could yield further labour only after complex and time-consuming reorganisation. The supply of labour was virtually exhausted.

The Minister for War Organisation of Industry, it may be noted, was not entirely convinced, and, in submitting the report to the War Cabinet, he wrote:

> I do not consider that we should resign ourselves to the serious retardation of the war programme which this rate of flow implies, and I believe that, if the Government is prepared to take vigorous action, irrespective of pressure from the interests affected, the monthly supply of manpower for war purposes can be substantially accelerated.

But the committee as a whole recommended that the Defence Committee immediately review present plans for the expansion of the Services and of war production.

This was the vital conclusion. In addition, there was a scheme for a Manpower Commission of three to five members; a series of specific proposals concerning skilled labour; and endorsement for more effective action against absenteeism and for discipline in protected establishments. But these were minor matters compared with the blunt acknowledgement, at the highest level, that there simply was not enough labour, and that commitments must be cut. The War Cabinet decisions were as clear-cut as the report. Nominally, the Minister for War Organisation of Industry was given the opportunity of justifying his belief, but "subject to the Minister consulting the Prime Minister regarding those proposals [for restricting non-war production], which should be submitted to Full Cabinet". The Manpower Commission was discreetly abandoned; ground staff for the R.A.A.F. overseas were not to be despatched; and there were minor decisions on skilled labour for shipbuilding and the Army. But the central decision was review of the plans of the Services and the war production associated with them. Facts had been faced.

CHAPTER 3

EXPANDING MUNITIONS PRODUCTION

JAPANESE entry into the war in December 1941 was followed by a great expansion in munitions programmes. There was a sense of the compelling need of more of everything, more weapons, more ammunition, more ships, more aircraft, and a need for new and different weapons. And that sense of urgent need underlined the realisation that for some time, an uncertain but critical time, there must be greater self-dependence in producing munitions as well as in battle. The crumbling of what had seemed so secure, the British shield to the north, was accompanied by the expectation that supplies of weapons and aircraft from Britain would be seriously interrupted, if not stopped. The United States was not yet ready to supply on a massive scale, and the destruction of its Pacific Fleet at Pearl Harbour seemed to threaten that for a long time to come its supply routes to Australia too would be precarious.

Moreover, United States full participation in the war meant a new approach to allocation among the Allies from its arsenal, and new administrative machinery. Thus at the end of January 1942 Roosevelt and Churchill agreed upon the establishment, with headquarters in Washington, of a series of "combined boards" to operate in principle so as to pool United States and United Kingdom resources. A Combined Shipping Board was designed to organise a broad pooling of shipping resources, though with important reservations about control over the movement of ships. A Combined Raw Materials Board was to plan the utilisation and allocation of raw materials. A Munitions Assignment Board had like functions, and the word "assignment" had a sinister ring to Australians, even those who accepted the principle of deployment of total Allied resources according to the strategy of the grand alliance. Clearly the United States would have rapidly expanding needs for its own armed forces, now committed to combat. Roosevelt shared the Churchillian view that the first priority was defeat of Germany, while the Australian Cabinet and senior commanders and public servants were under no illusions about Churchill's attitude that in the short run the fate of Australia was secondary.

It was in this mood and against this background that plans for producing munitions at a greatly expanded rate, and for undertaking manufacture of new weapons, were assessed and too readily adopted. In retrospect, it was to become clear that many of the plans of 1942 were mutually self-defeating. Technical achievements in production—the casting of tank hulls, production of torpedoes, and others which were less conspicuous (or less publicised)—were many, and total production of at least the simpler forms of munitions for which programmes were well advanced was impressive. Indeed by the end of 1942 there was surplus capacity for a range of weapons and ammunition. There were impending surpluses in .303-inch ammunition and other items, excess capacity for 25-pounder guns and ammunition, pyrotechnics, anti-aircraft guns on static mountings,

3.7-inch anti-aircraft ammunition, universal carriers and the like. But for other technically more demanding weapons too often the story was to be of delay so long that the weapons were no longer needed, or were obsolete by comparison with alternatives which became available from overseas.

There was insufficient foreknowledge of the total demands on machine tools, materials and labour, the separate demands for which were being separately expanded beyond the possibility of total commitments being met. There were over-optimistic assumptions about ability to carry through production of new weapons. More particularly, far too great a variety of weapons was incorporated in the programme. The torpedo programme, for example, was in the end a technical triumph, but it did not produce torpedoes for use in battle. Even had the original time schedule proved possible—and it did not—its realisation in usable torpedoes could not have come in time to contribute to turning back the Japanese advance. In early 1942 with supply interrupted from the United Kingdom and the United States, the shortage of torpedoes appeared desperate, but long before Australian torpedoes could be hoped for the immediate fate of Australia would be decided and if that did not prove to be defeat and occupation American supplies would be available well before Australian ones were ready. And so it proved.

So too the tank programme initiated in 1940 seemed to those who made the final decisions in early 1942 to have become more urgent. The alternative view was that a few months, during which not even the most optimistic could hope for Australian tanks to be available for combat, would decide whether the Japanese would be held. The tank programme, too, was the outstanding example of what applied to other plans: the attempt to produce weapons not previously produced of a type beyond immediate capacity. Such a project involving a long gestation time necessarily meant that at an early stage commitment had to be made to models and designs which were already obsolescent. Moreover, the final products were likely to be inferior to those of the enemy and those which would become available from the United States as soon as, if not sooner than, the Australian production. Initiation of the programme may have been justifiable; persistence with it after the first months of 1942 was inexplicable.

A simple, if imperfectly measurable, index of the increasing demands on shrinking resources created by the great expansion in munitions programmes was the labour commitment. Tolerably accurate figures for direct employment by the Department of Munitions are available, though during 1942 Munitions and Manpower argued about their accuracy. Less satisfactory figures are available for employment in annexes, while for employment by private contractors on munitions projects no satisfactory records exist which distinguish munitions work from other defence contracts. The figures in the following table therefore are for part only of munitions production, and are intended to illustrate the extremely rapid inflation of the munitions demand on the labour market and the inability of the War Commitments Committee and the War Cabinet, despite the policy decisions

which followed recognition in the latter part of 1942 of gross over-commitment, to restrain, still less to reverse, the expansion.

Hindsight is not, of course, delayed foresight, especially in relation to the unpredictable course of global war. Many of the individual projects undoubtedly appeared to be justified in the crisis months of 1942. Even so, with all allowance for the fog of war, the slowness with which the implications of their total were recognised and assessed is remarkable. That recognition of over-commitment was giving rise to vocal and increasingly urgent criticism from outside the Department of Munitions and the Services from early in the second half of 1942, but it was to take months for it to be accepted at Cabinet level, and even longer for curtailment of commitments to become effective.

Within Munitions this view was not readily or promptly accepted. The technical man's reluctance to abandon a challenging technological task because of its demands on scarce resources, together with personal ambition and a laudable conviction of the overriding importance of producing the means of waging war, had their part. The high degree of independence of action conceded early to the Munitions organisation insulated it in substantial degree from a compulsion to justify its planned scale of operations in competition with other demands. Thus the War Cabinet in February 1942 gave the department a general authority to continue production of items of munitions as existing orders were completed, in anticipation of further orders.[2] The argument used, which was to be advanced repeatedly in 1942 in relation to specific weapons, was that efficient production required continuity of operation, and that it was inefficient and wasteful to shut down and thus allow trained labour and specialised equipment to be dispersed when there was reason to believe that renewed Service orders would presently require rebuilding of the organisation for renewed production. It was a plausible but question-begging argument, the more plausible because those who advanced it were men genuinely concerned to meet demands promptly and efficiently. The general authority was an expansion of power granted to Munitions in October 1941[3] to establish productive capacity in advance, even when no firm orders had been received, in the light of discussion with the Services of what they planned to order. Again the plausible argument was that months of delay could be saved, but it meant piecemeal commitments to particular projects without any co-ordination to fit them into a total which could be achieved. Moreover Munitions was not in a position to know what actual orders were being placed except those received by itself, and was even less well-equipped to forecast future orders. Thus in May 1942 the Victorian Board of Area Management wrote to the Director-General of Munitions[4] complaining that Munitions had failed to persuade the various authorities to agree on any machinery for co-ordinating the orders being placed, on the same groups of suppliers in private industry,

[2] War Cabinet Minute 1904, 18 Feb 1942.
[3] War Cabinet Minute 1425, 23 Oct 1941.
[4] Letter of 25 May 1942.

	Department of Munitions[1]								
	Administrative Staff			Government Factories and Establishments			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
30.6.41	980	493	1,473	18,976	5,756	24,732	19,956	6,249	26,205
30.6.42	2,107	1,617	3,724	31,973	16,245	48,218	34,080	17,862	51,942
30.6.43	3,118	3,115	6,233	32,210	22,548	54,758	35,328	25,663	60,991
				Annexes					
30.6.41							7,920	750	8,670
30.6.42	(Not available)						15,055	3,079	18,134
30.6.43							13,885	5,388	19,273

[1] Figures taken from 1945 "Munitions Digest".

Total employment of males and females of both departments is thus set out at 80,264 for 30th June 1943.

However, the Acting Commonwealth Statistician, S. R. Carver, in a report to the Manpower Directorate on 7th August 1943 placed *male* employment in "Munitions, Shipbuilding and Repair, and Aircraft" at 90,000 (subsequently revised to 90,900) and female employment at 38,000 (subsequently revised to 39,400). Employment by private contractors for defence purposes was placed at 320,000 males and 106,000 females, although this would presumably include contractors to other authorities such as the Department of Supply and Shipping, and also include direct employment of civilians by U.S.A.S.O.S. (United States Army Services of Supply). In J. K. Jensen's scribblings on the Munitions copy of Carver's memorandum the estimates are queried—the latter because there was no sound basis for the estimates and the former because employment by Aircraft Production is included with Munitions.

by the Navy, the Air Force, Government Munitions Factories, the Contract Board, Aircraft Production and Boards of Area Management.

A continuing problem and a continuing source of friction between the Services (especially the Army) and the Munitions Department was the relation between Service orders (both in their timing and their amount) and the production capacity to meet those orders. In one sense it is an inescapable problem of war for which no perfect solution can be found. Operational needs for particular weapons and equipment can only be imperfectly foreseen and may change rapidly. Production, especially of other than the simplest weapons, requires massive capital equipment. Training of workers and acquisition of materials requires time, while the production process itself is long. Moreover, to be both technically efficient and not unduly costly, production needs to be in quantity and maintained at a constant or predictably changing rate. Reconciliation of these inherently contradictory requirements can never, in war, be other than rough, and it is inevitable that both groups of needs should be inadequately met. Service orders in a fluctuating military situation must almost always be formulated too late for the production ideal and demand more than can be provided to fit the operational timetable, while productive capacity built up to meet Service needs may all too often come into operation in time to produce more than is then needed or even produce weapons no longer wanted. Programmes for production in Australia of tanks and torpedoes involved complex issues, but these issues included the central one that those items of munitions production which used massive quantities of skilled labour, materials and machine tools over a long period produced eventually an obsolete tank and an obsolescent torpedo at a time when supplies of advanced types of both from other sources were more than adequate for Australia's shrinking needs.

These instances are extreme, and in such cases the failure to assess more critically the probability of the outcome is the central criticism of the original decisions to undertake torpedo and tank production. But the basic conflict was between the imperfectly predictable and rapidly fluctuating munition needs of active war and the dependence of efficient production on continuous and smooth operations initiated on the basis of long-term planning.

During 1941 the issue was becoming more clearly recognised, especially as the difficulty of obtaining raw materials and components from the United States and the United Kingdom increased—delays in deliveries were ranging up to eight months. Discussion involving L. J. Hartnett of the Ordnance Production Directorate, General Sturdee,[5] Chief of the General Staff, and Essington Lewis secured a War Cabinet decision in October that the Director-General of Munitions might act to establish production capacity for needs foreshadowed by the Services, even though

[5] Lt-Gen Sir Vernon Sturdee, KBE, CB, DSO. GOC Eastern Comd 1939-40; CGS AMF 1940-42 and 1946-50; GOC First Army 1944-45. B. Frankston, Vic, 16 Apr 1890. Died 25 May 1966.

no firm orders had been given.[6] This however was only a small part of the problem and further proposals to the War Cabinet a few days later emphasised that the only long-term munitions plan that could be said to exist was the Army's estimates of its requirements for arms, ammunition and explosives. Even so munitions contractors were running out of work while at the same time production (for example of 3-inch mortars and machine-gun carriers) was being delayed.

Cabinet decreed that the Services were to provide schedules to cover total requirements of various items, showing the basis of calculation, quantities on order, with Munitions or elsewhere, and orders not yet placed. These schedules were to be revised quarterly and scrutinised by the existing Army and Munitions Co-ordinating Committee to establish long-term production targets and priorities. The Cabinet would concern itself primarily with financial authorisation.[7] The difficulty was that this planning was to be within "the limits of approved policy" which the Cabinet in January 1942 could only define in circular terms as that on which the Army based its schedules and the needs of the Army in Australia and nearby islands. Munitions, it should be noted, was not bound to obtain financial approval in advance for new projects; the Director-General submitted estimates to the Minister on whose approval he could act, with formal Cabinet submission later.

Further, and at times acrimonious, discussion was precipitated by presentation to the War Cabinet of a letter dated 24th January from Hartnett. He was highly critical of the elaborate ordering procedures, inadequate control over costs, efficiency and profits of contractors. He urged, as part of a wide-ranging prescription, that the number of separate steps by which the Army placed an order should be cut from twenty-three to six; that the Army should yield to Munitions its authority on design so that designs would be adapted to ease of production; and that, in consultation with the Army, Munitions Directors should determine production rates regardless of current orders. (As well he wanted an excess profit tax, cuts in non-essential industry and other objectives.) The Army, not incorrectly, took many of these points as an attack on its own efficiency and an attempt by civilians to interfere with the Army's right to determine its own needs, including the design of equipment. Feelings were exacerbated by a number of incidents. Thus in May 1942 it was alleged that a junior Air Force officer threatened seizure of the equipment of two companies if they did not produce transport equipment for torpedoes in place of the other munitions work on which they were engaged. The exact truth is elusive, but the incident indicated both the antagonisms and the lack of co-ordination.

J. K. Jensen, Secretary of the Department of Munitions, had already proposed[8] replacement of the Army and Munitions Co-ordinating Committee by one covering all Services. The former concerned itself only with

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[6] War Cabinet Minute 1425, 23 Oct 1941.
[7] War Cabinet Minute 1477, 6 Nov 1941.
[8] 17 Dec 1941.

the Army and primarily with arms and ammunition. His Services and Munitions Co-ordinating Committee was to include all three Services, to meet under the chairmanship of the Director-General of Munitions, and to cover all munitions requirements. It was to appraise requirements, revise production programmes, translate requirements into orders, deal with modification of design to meet manufacturing needs and determine priorities in production. These were large functions which required the Services to accept scrutiny of their demands on a comparative basis and, by specifying the Chairman, put the Services, as it were, in the position of clients rather than masters. Not surprisingly, several months went by until the plan was approved in April, and the new committee did not in fact hold its first meeting until August.[9]

It is not possible to determine how far this delay was explained by the involvement of all in the urgent immediate demands of 1942, by the time required to prepare data in relation to an operational situation which had so many shocks and surprises, so many defeats and victories, as the first nine months of the Pacific war, or how far delay was due to the reluctance of the Services to accept restraint on their separate freedoms. The basic organisational device was obvious enough as a broad framework for relating Service demands to productive capacity, and was designed before December.

Certainly by the time the new committee first met the whole munitions programme was under fire, primarily on the general ground (even when expressed in very specific terms) that total Australian manpower was over-committed, and that the munitions programme was far too ambitious. In the event, therefore, the chief function of the committee was to supervise a general cutback in munitions and to determine priorities in this context. In this role it remained important for some months but declined to insignificance by the end of 1943.

NEW LOCATIONS FOR PRODUCTION

In the early years of war, production of munitions was concentrated in or near capital cities, partly because the existing government establishments were located there, as were the private factories or other government establishments (for example railway workshops) to which contracts were allotted. Early expansion continued on this base, especially because this was the easiest source of labour while manpower shortage was not acute. But during 1941 and especially 1942 conscious efforts were made to decentralise munitions production into inland areas, partly because of security considerations, but even more in search of dwindling labour supplies. (Questions of transport and water-supply could also influence particular choices.)

As an illustration of security planning, locations for production of cartridge case and other components of gun ammunition were chosen to be between filling factories in Maribyrnong, Victoria, and Salisbury, South

[9] War Cabinet Minute 2086A, 9 Apr 1942.

Australia, because if either filling factory were bombed—and in the early part of 1942 there was a genuine fear of bombing of munitions establishments near Melbourne and Adelaide—these components could be shipped to the other. But even in such a decision availability of labour was probably at least as important. The Munitions Board of Area Management in Victoria in August 1941 gave its blessing to locating munitions production in country towns where labour was available, and where the early effects of war had even created unemployment of labour not easily mobile. There were limits to work which could be farmed out, for example, to motor vehicle workshops: items had to be standardised within the capacity of the workshops concerned which did not normally have elaborate equipment. Best results were usually obtained by allocating a single item or narrow group of items to a particular establishment so that a continuous flow of output could be achieved. Farming out to small scattered establishments therefore required a great deal of organisation, the difficulties of which were only justified by the need to use labour and equipment where it could be found, a policy urged by the Treasurers of State governments, local authorities and others who saw inherent virtue in any manufacturing development in country towns. Impressed by early experience especially in Victoria, the Department of Munitions in February 1942 endorsed an enlarged programme of expanding munitions production in country towns.[10]

In Victoria the decentralisation into motor garage workshops in particular was organised through the Victorian Automobile Chamber of Commerce which accepted responsibility for organising and managing the scheme, for which it was paid twenty per cent of the contract costs. In developing a similar plan in New South Wales some thirty garage workshops were selected as suitable: investigation showed that seven of these were already doing munitions work on sub-contract, nine were willing to undertake it, ten had insufficient labour, and four ignored all requests for information. A number of others were already fully occupied with vehicle repair and reconditioning for the Army, work which was taxing Queensland workshops to capacity. Tasmania and South Australia likewise had insufficient plant and manpower to take on munitions work without prejudicing vehicle maintenance. In Western Australia some very modest munitions work could be farmed out to garages.

To some extent the relative success of this programme in Victoria was explained by the better organisation possible over a geographically small area in close proximity to major factories, but there was also the fact of an early start. By the time the Victorian scheme had proved its worth other war demands on garages elsewhere had grown and their labour supply had fallen so the scope was less. Much more important in increasing production was the building of government munitions factories in country districts. The extent of this development in the period of great expansion is indicated in these figures:

[10] War Cabinet Agendum 315/41, 15 Feb 1942.

	Number of Munitions Factories					
	Middle 1941			Beginning 1943		
	Capital City	Country	Total	Capital City	Country	Total
New South Wales	2	9	11	2	20	22
Victoria	5	2	7	4	8	12
Queensland	1	—	1	1	—	1
South Australia	3	1	4	3	6	9
Western Australia	1	—	1	1	1	2
Tasmania	1	—	1	1	—	1
Total	13	12	25	12	35	47

(The figures do not include a few factories not yet in operation at both dates.)

In short, the total number of factories was doubled, the increase being entirely outside capital cities. They were concentrated in three States, where munitions production was already developed. These were the States with the largest amounts of available labour; the new factories were commonly producing components which had to be brought together, often at one of the metropolitan locations. There were also security reasons. Queensland had little or no labour of relevant types to spare but it was in any case virtually a forward base for operations, an inappropriate location for a munitions plant. Tasmania and Western Australia had little labour to offer and transport problems made them unsuitable. But they were also regarded as vulnerable to attack.

While the development of factories in country towns was in substantial measure intended to use the labour, including skilled labour, available there, skilled workers continued to be acutely short whether in city or country. Early programmes for training, and for "dilution" of labour have already been recorded,[1] but the need continued. In December 1941 Munitions estimated its additional labour needs for the next six months as 16,941 males and 12,734 females, including 838 toolmakers and 2,676 other skilled tradesmen, and the outlook for these was bleak despite the fact that by then 14,335 had completed or would complete training by June 1942. Increasingly the difficulty in maintaining training schools for tradesmen was that the machines and the teachers were urgently wanted for immediate munitions production. For example, the United States Lend-Lease authorities were unwilling to approve requests for equipment while the same type of equipment was located in training schools.[2] Nevertheless by May 1943 when the training programme was being reduced there were 7,706 undergoing training.

Associated with these training programmes was dilution of skilled labour. The unions had reluctantly accepted the principle with restrictions and safeguards,[3] but the restrictions on the use of semi-skilled workers and trainees were seen by Munitions as a major constraint on production. A

[1] See Butlin, *War Economy, 1939-1942.*
[2] War Cabinet Agendum 215, Supplement 4, 8 Aug 1942.
[3] Butlin, *War Economy, 1939-1942.*

series of conferences in the first half of 1942 culminated in June in what in effect was a deal by which the Amalgamated Engineering Union accepted further dilution with additional pay margins for skilled and semi-skilled workers. However, the Cabinet insisted these margins must be determined by normal procedures before a conciliation commissioner, not by direct government action.[4]

There were efforts too to increase the employment of women, for example by adapting their shift hours to fit in with the hours their children were at school and to improve amenities in the hope of reducing absenteeism which was becoming a matter of concern. Among women in particular a good deal of absenteeism was attributed to difficulties of shopping for family needs, because of elimination of delivery services, the need to queue to secure scarce goods, and so on. But there were other factors involved, for absenteeism was prevalent among men also. One common factor was the large amount of overtime being worked.

By the end of 1941 production of ammmunition was at high and increasing levels. The oldest ammunition factory was at Footscray, Victoria, followed by Hendon and Finsbury in South Australia, and eventually there were 11 major and 16 small factories and 90 commercial annexes, most coming into operation in 1942-43, engaged in ammunition production. In December of 1941 production of .303-inch ammunition of all types had reached a level of 40,000,000 rounds a month; production was proceeding satisfactorily with 2-pounder practice shot, mines and 3.7-inch forgings; compared with June 1940, shell production at Maribyrnong had increased by 618 per cent. Output of 2-pounder anti-tank shells was lagging and had again to be slowed down in January 1942 to expedite production of shells for the 40-mm Bofors.

A special difficulty was .303-inch armour-piercing ammunition for the Royal Australian Air Force. Machines had been ordered from the United States but had not been delivered; special imported steel was no longer available and an Australian substitute took time to develop, and was only becoming available at this time. The old Footscray factory, which it was intended should produce only this ammunition, was being reconstructed.

Projected general increases in ammunition output were restrained during 1942 by difficulties in securing labour and by machinery and machine-tool problems. In some cases happy solutions were found with Australian substitutes. Stewarts and Lloyds (Australia) Pty Ltd developed a machine, using weldless tubes, to produce shells for the 18-pounder, 25-pounder, 3.7-inch anti-aircraft, 5-inch howitzer and the 6-pounder, which was markedly superior to other equipment in use. Initiated in February 1940 it had by September 1942 produced over 2,000,000 shells, half of them during nine months in 1942 when it was able to turn out over 33,000 a week compared with 20,000 on other machines. When in June of that year it was planned to enlarge output, partly in expectation of a rapid

[4] War Cabinet Minute 2196, 12 Jun 1942.

increase in need for 25-pounder shells, partly by increased forging relative to machinery capacity so as to build up reserve stocks of shell bodies, manufacture of another such machine was approved. It was expected to take nine to ten months to make, but the best forecasts for import from America promised a similar delay and higher costs.

Army demands could not be forecast accurately in either quantity or type. Thus in June 1942 a special order for 4,000 mines was approved, not because they were currently required but to avoid shutting down productive capacity which would be needed at a future date. Changes in needs for different types of ammunition brought production problems. Thus the increasing emphasis on aircraft and aircraft weapons from the end of 1941 brought new ammunition needs. A simple example was the decision to adapt the 2-pounder anti-tank gun for use as an anti-aircraft gun. The most practicable way to secure the new kind of ammunition required quickly was to combine the 2-pounder anti-tank cartridge case with a Bofors shell, fuse and igniter. This hybrid required modification of the gun chamber and created an unforeseen increased demand for fuses and igniters.

There were production difficulties too because of the wide range of ammunition being produced and the large number of factories and commercial annexes involved. There were as a result great difficulties in co-ordinating and controlling the flow of components, with the inevitable consequence that surplus components accumulated because supply of others was not in step, and productive equipment often operated below capacity. Thus in July 1942 Toowoomba Foundry in Queensland had to be instructed to curtail production of primers because output of these had outstripped other components.

Accumulation of such difficulties led in mid-1942 to a special Army-Munitions survey designed to pin-point the source of difficulty in maintaining the flow of ammunition in the types and quantities desired. The June 1942 report of the Director-General of Munitions described as a general limitation "our ability to obtain machine tools, jigs, fixtures and gauges to schedule" but there were many other specific problems. Insufficient cordite was holding up output of 3.7-inch ammunition (earlier insufficient cartridge cases were a holdup), and 2-pounder anti-tank shell. Fuse production was handicapped by shortage of aluminium because of the prior claims of aircraft production, and this was holding up production of three types of naval shell, Bofors shell and 20-mm ammunition. Manpower shortages, lack of machine tools and gauges were constantly mentioned, and for one type of shell, refreshingly, "lack of drive in production directorate". The Director-General's conclusions were that new commitments to supply ammunition to the Americans must be restricted to types which could be produced with existing equipment (including tools) which were not currently sought by the Australian forces, and that proposals to produce new types of ammunition must be scrutinised for their effect on existing programmes. There was more than a suggestion of pressure on the American Army to expedite the delivery of Lend-Lease

tools and gauges, but it was also true that the Americans wanted ammunition (for example 105-mm and 155-mm) not then used by the Australians.

Nevertheless during 1942-43 planned capacity for ammunition production progressively came into operation. Among the major factories were Footscray, producing small-arms and gun ammunition, employing in mid-1942 9,311 workers, nearly half of whom were women; Finsbury, South Australia, employing 5,346 mainly on cartridge cases; Hendon, South Australia, with 2,712 workers producing .303-inch ammunition at the rate of 110,000,000 rounds a year; Rocklea, Queensland, producing mainly .303-inch cartridges (capacity 220,000,000 rounds a year) and other small-arms ammunition; Maribyrnong, Victoria, producing thirty different types of shell and several types of bomb.

There were at this date various government factories commencing or near to commencing production mainly in country towns. These included:

Wagga and Albury, N.S.W., fuse factories—capacity 650,000 a year.

Goulburn, N.S.W.—capacity 750,000 6-pounder shot and 650,000 fuse; production due to start in November 1942.

Tamworth, N.S.W.—capacity 2,350,000 primers; production due in January 1943.

Welshpool, Western Australia—a small small-arms ammunition and fuse unit.

Rutherford, N.S.W.—cartridge cases; production due in October 1942.

Derwent Park, Tasmania—capacity 2,000,000 6-pounder and Bofors cartridge cases; production had started in June.

Hamilton, Horsham and Stawell, Victoria—factories to machine shell forgings produced at Maribyrnong.

Port Pirie, South Australia—25-pounder shell; production (650,000 a year) due in October.

Broken Hill, N.S.W.—fuses at the rate of 650,000 a year, due January 1943.

Kalgoorlie, Western Australia—40-mm Bofors ammunition.

Mildura, Victoria—1,250,000 primers a year, due January 1943.

Most of these factories did in fact come into production on this planned schedule.

The distribution of the factories was intended to use labour in country towns and to minimise risks from enemy action, which did not develop as feared. But it reflected also a deliberate policy of promoting development in country towns. Thus the Kalgoorlie factory was approved, in view of "the state of the gold-mining industry at present, and it is felt that the 40-mm shell would afford favourable opportunity of providing employment without involving us very much in the way of freight for raw materials and return of the finished shell to the filling factory".[5]

It would appear from the files and reports preceding decisions, that the more important criteria in selecting towns for the location of these factories were the distance by rail from the capital city (and from the factory which would use its output in further processing); the airline distance from the coast; total population and more specifically estimates

[5] Letter from Department of Munitions to Board of Area Management, Western Australia, 2 Jul 1942.

of the female population not gainfully employed with particular reference to age and family status; electricity, water, and gas supply.

Official policy of the Department was to organise production to meet immediate needs and to prove productive capacity, and then operate at a rate calculated to offset usage and maintain reserves. In September 1942 capacity, including factories about to produce, was estimated at 1,073 million rounds of small-arms ammunition and it was possible to entertain proposals for new types of ammunition within this overall capacity. Thus the Americans could be supplied with 145-mm ammunition by curtailing .303-inch production by 125,000,000 rounds; the capacity was enough to meet all Australian requirements of small-arms ammunition and to meet overseas orders (for example Eastern Group Supply Council) of 216,000,000 rounds. Again the production from early 1943 of Oerlikon ammunition would be accommodated, at least in part, from existing capacity.

EXPLOSIVES

The Directorate of Explosives Supply in the Munitions organisation was concerned with the production of explosives and with filling factories, and therefore with the supply of chemicals to be used in those factories. Such factories were mainly government ones because of the inherent dangers, although some use was made of commercial firms. More important were the close personnel links with industry. Thus, for example, the Director of Explosives Supply was T. Donaldson, technical director of Imperial Chemical Industries of Australia and New Zealand Ltd and initially I.C.I.A.N.Z. at the request of the government had established a unit for T.N.T. production adjacent to their Deer Park, Victoria, factory.[6] This unit became the government explosives factory, Albion, managed during the war by I.C.I.A.N.Z. on behalf of the government. Pre-war the only government explosives factory was at Maribyrnong, followed in 1940 by Albion; and during 1941 further factories were established at Salisbury, South Australia, Ballarat, Victoria, Villawood and St Mary's, New South Wales, with a later plan for one at Mulwala, New South Wales.

At the end of 1941 ambitious plans were adopted to undertake the production of synthetic ammonia to replace imported sodium nitrate and to develop capacity to make nitro-cellulose which, unlike cordite, is flashless. These *were* ambitious plans, for the plants contemplated were to convert sulphate of ammonia produced by gas and steel industries into nitric acid, and also to extract atmospheric nitrogen to synthesise ammonia as a step towards producing nitric acid. The technique was established in Britain, but even the United States, for example, had only one such plant in operation. Even the engineering required was demanding, calling, for instance, for huge pressure vessels which no equipment in Australia could make in one piece. The prospect of Australian agriculture after the war being independent of imported nitrates was dangled as an advantage of the plan. Initially the proposal was for four synthetic ammonia plants,

[6] See Butlin, *War Economy, 1939-1942*, pp. 313-5.

the first two at Villawood and Ballarat. Plans also included four units to produce methanol, used in torpedoes and aircraft bombs.

By June 1942 the first two plants for synthetic ammonia were under construction, in Victoria at Albion and Ballarat. The Villawood proposal was abandoned in favour of a nitro-cellulose plant at Mulwala, which was chosen because it was regarded as a less vulnerable site, with rail links which would enable it to supply Salisbury, Maribyrnong and St Mary's.

The further development of these plans was complicated by uncertainty about the amounts that would be required of picrite and of the explosive R.D.X., which was at one stage considered vital in aircraft bombs, anti-aircraft shells and anti-tank grenades, and which could be produced by two different methods. The final distribution of plants adopted was: for Villawood, plants for synthetic ammonia, methanol and ammonium nitrate; for Mulwala, synthetic ammonia and methanol because it would have the largest need for ammonia (for production of nitro-cellulose); and for Albion, methanol.

Construction of these plants continued through to 1944. By February 1943 buildings at all sites were advanced but no equipment was installed, virtually none of the items manufactured in Australia or supplied from the United Kingdom being yet available. Throughout 1944 the completed plants came into operation but by then their output was not needed and the labour for full-scale operation was unavailable. They were therefore "proved" and closed. Maribyrnong dated from before the war of 1914-18 but between 1939 and 1942 was radically reconstructed to produce especially cordite and T.N.T. and provide experimental and testing services through its laboratories. At its peak at the end of 1942 it employed some 7,000 people. The next largest Victorian factory was Ballarat which produced gun paper (in substitution for gun cotton) and ammonium nitrate.

In New South Wales, St Mary's went into operation in 1942 as a filling factory for shells, bombs, land mines and aircraft ammunition. For this reason its employment was largely female (at its peak in September 1943, for example, 1,601 out of a total of 2,499) and indeed its siting had been largely influenced by the availability of women workers. Villawood did not begin production (of T.N.T., tetryl and ammonium nitrate) until March 1943.

Salisbury, in South Australia, was chosen as the site for an explosives complex because of its strategic position, rail transport, water supply and access to urban labour. Construction began late in 1940 and output started at the beginning of 1942 (its peak employment, in February 1943, was 6,400). But almost immediately it became clear that the total war production activities planned for South Australia were beyond its labour supply. Efforts were made to secure volunteer workers for the explosives factory from New South Wales, but with only small success, only in part because of a series of misunderstandings and conflicting actions by the various authorities concerned with recruiting the mainly female labour sought. The 1942 "Munitions Digest" observed: "As it was doubtful

whether sufficient employees could be found in South Australia for all wartime munitions industries to be undertaken in that State (in the first instance it was preferred on strategic grounds) it became necessary to 'follow the population'. New South Wales therefore came under consideration and sites in that State have been selected at Villawood, St Mary's and Mulwala."[7] So Salisbury declined in employment from March 1943 partly for reasons of labour shortage, but also because of general cut-backs in output. (The ammonium nitrate section it will be recalled was completed only to be shut down.)

Cordite was the standard military explosive in production in Australia in 1939, but in 1941 the High Commissioner in London reported on British investigations into a smokeless powder alternative. Munitions officers later that year visited the United States to explore the possibilities of manufacturing in Australia under licence from the Dupont Company, who were manufacturers of nitro-cellulose and smokeless powder for the United States government. Negotiations were prolonged. The Dupont Company was concerned to see that Australian production was limited to the war period and confined to explosives for military purposes. The Lend-Lease Administration, whether because it genuinely believed Australia should use its resources for other purposes and import the finished explosive, or reflected concern for post-war competition from Australian industry, took time to be convinced that the necessary equipment should be released, but eventually approval was obtained in October 1942. Production of nitro-cellulose began at Mulwala in December 1943 and of flashless powder in February 1944.[8]

WEAPONS

Pre-war Australian weapons production had been restricted for practical purposes to small-arms, and during the first two years of war equipment and technical knowledge were imported and skills learned so that when the Pacific war both increased the need for weapons and impeded supply from the United Kingdom and the United States the basic foundation existed for expansion. In addition to weapons (field ordnance and small-arms), engineers' supplies, optical, electrical and fire control equipment were also produced within the Directorate of Ordnance Production. Originally armoured fighting vehicles, radio equipment and small craft were sections but they became separate directorates.

In December 1941 the major items in production were: 3.7-inch anti-aircraft gun; 25-pounder howitzer; 2-pounder anti-tank gun; 3-inch mortar; Bren, Vickers, and Owen machine-guns and rifles, but other projects were being developed.

Chief among these was the 40-mm anti-aircraft Bofors gun. In 1940 when needs were believed to be modest (as the war was then distant) estimated requirements of eighty-three guns had been purchased from the

[7] Page 52.

[8] Alpha wood cellulose was used, produced from Australian timber. The statement in D. P. Mellor, *The Role of Science and Industry* (1958), p. 357, that imported wood was used, appears to be a mistake.

United Kingdom. Thereafter no further orders were forwarded because the need was not urgent and supplies from the United Kingdom were unobtainable. Australia was concentrating on producing 3-inch and 3.7-inch anti-aircraft guns and it was thought that to add the Bofors was beyond capacity. Nevertheless from early 1941 the possibility of Australian manufacture was being explored with the aid of a United Kingdom adviser—H. W. Goodger.[9] A good deal of friction followed between him and the Department of Munitions, in the course of which he alleged "that no one is interested in whether the gun is produced or not" and that although an initial production of forty-three guns had been approved no machine tools or materials had been provided, and productive capacity for components in private industry was being ignored. The Department had plausible answers.

The outcome was a decision in December 1941 to produce 1,030 complete guns with 2,559 spare barrels and spare parts, which it was proposed to produce over two years at the rate of ten a week—a higher rate was believed to be impracticable mainly because of machine tool limitations—with the accessory equipment produced commercially and the main components produced in the government ordnance factory.

Subsequent progress was disappointing and a report in April 1942 by Goodger was doleful. Of the twenty-eight machine tools ordered only eight had been delivered and essential ones had yet to come from the United States. Small tools and gauges were lacking; in particular predictor and gear cutting tools were very scarce. Steel supplies were scanty. The main reason was the competition from other projects but Goodger, concerned with his own project, was caustic in his complaints, and eventually (under pressure from the Army) returned to England in October.

Meanwhile orders from the Services were increased. By May the Navy had ordered 68 and the Army another 500; by June the Army order totalled 1,043 guns and 593 predictors, the Navy increased its order to 161 guns and 545 predictors. A particular shortage was automatic loading equipment, which was sought in the United States, although Australian Consolidated Industries Limited continued production of these on a modest scale.

In December the Army dropped a bombshell. It had estimated its total requirements at 1,390 guns, and, sceptical of supplies coming forward from Munitions, had ordered 821 guns from the United Kingdom. The progressive increase in orders from Munitions arose from equal scepticism about United Kingdom supplies. Now 624 guns had been delivered from the United Kingdom and the rest were about to arrive. The overall position then was that 100 guns had been received by the Army from sources other than Munitions, including those coming from the return of the A.I.F., releases from ships and the United Kingdom deliveries. There were 1,043 guns on order from Munitions but only 402 were required—the Army proposed to cancel 641.

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[9] H. W. Goodger. Commissioned Royal Artillery 1917, technical staff officer 1927-47; Aust Trade Commr to Pakistan 1950-54, to Ceylon from 1954. B. Plumstead, Kent 11 Oct 1896.

The repercussions were serious. There were already finished materials at Maribyrnong for the assembly of 600 guns and it was easy to decide to order no more. But outside contractors numbered 90 (60 in Victoria and 20 in New South Wales) in various stages of completing orders for components for 1,200 guns; many were nearing completion of their contracts. Production of predictors for the guns was also upset, because it emerged that the Army had ordered 780 from the United Kingdom because Australian production was still not expected for nine months. There was still a good deal of confusion about the numbers of guns now required to be produced in Australia but it was finally settled in January 1943 at 543 for the Army plus 161 for the Navy, and Munitions negotiated so far as possible adjustment of orders for components.

The first 50 guns were completed at Maribyrnong by June 1943 and production was continuing on the basis of 543 Army and 161 Navy guns, but it was clear that this would prove excessive. Army estimates indicated that by mid-1944 they would have surplus guns even if no more were produced and it was proposed that production should cease, except for completion of Navy orders. In the event it was decided in October that total production should cease at 300 guns, of which 119 were already complete. Production of Bofors ceased in mid-1944, with a total production of 290 guns and 700 spare barrels.

The story of other anti-aircraft weapons was happier. The 3.7-inch anti-aircraft gun was in production by early 1942 after its initiation in 1941, and by the end of the year 15 a week were being completed. There was such concern about air attack after the Japanese entered the war that there was discussion about conversion of available weapons for anti-aircraft use—the 25-pounder field gun, 2-pounder anti-tank gun, 3-inch trench mortar. But the technical difficulties of conversion and the limited effectiveness of the converted weapon were decisive against the proposal.

Production of 25-pounder guns had commenced in 1940 and yielded its first guns in May 1941, the chief contractors being General Motors-Holden's Ltd and Charles Ruwolt Pty Ltd, with extensive sub-contracting.[10] At the beginning of 1942 orders for a further 480 guns were authorised in advance of Army demands for the primary purpose of maintaining continuous production and avoiding dispersal of experienced staff and equipment. As it happened this was to prove the source of over-production. There were some difficulties in production over and above the common story of delays in delivery of materials and labour shortages. The most important were technical difficulties in making recuperator blocks with the required degree of precision, and the imbalance in components. Ruwolts, for example, had difficulty in maintaining the desired flow of spare parts because, first, they were intended to concentrate on producing guns and carriages in balanced numbers and, second, because it proved necessary to divert parts produced as spares to Maribyrnong for the assembly of complete guns.

[10] See Butlin, *War Economy 1939-1942*.

By mid-1942 there was concern about the relationship between Army orders and production. General Motors-Holden's were urging approval for a higher rate of production to keep capacity fully engaged, but Munitions was unwilling until the situation was clarified. What emerged in August was that the Army had over-ordered and suggested that production should cease since they estimated they had reserves sufficient for two years, beyond which time they feared the gun might be obsolescent. Munitions opposed abrupt cessation of production and secured the Cabinet's approval to maintain continuous output. The Department proposed to adapt the gun to tank mounting and to seek overseas orders. An important factor in the decision to maintain production was that the men and equipment producing the 25-pounder were required later for the 17-pounder when that reached production.

Despite the prohibition of January 1942[1] of the export of munitions except in special cases, exports were approved. The United Kingdom had indicated in December 1941 that it would take seventy guns a month if available, until May 1943; the United States was a possible market, while if the gun were placed on a naval mounting it was believed it would be of use on naval vessels. The United Kingdom confirmed that it would take the surplus guns, while in December 1943 the Indian Army foreshadowed orders for 480. By early 1943, in part because of the general cut-back in munitions production, output of the gun began to taper off. Deliveries in Australia were complete by June 1943 and production ceased at the end of that year, by which time it had totalled 1,173 guns and 230 spare barrels from government factories and 354 guns and 445 spare barrels from commercial factories. (The carriages and trailers were all made by private industry.) The last output of the gun was in a "short" version with barrels reduced in length, one of several modifications to adapt the gun to be dropped from aircraft. Some 300 spare barrels were shortened and exported to the United Kingdom in 1944 for this form of gun.

The story of anti-tank gun production is a depressing one, dominated by obsolescence. These guns were regarded as high priority, especially after the Germans crushed the French army. Production of the 2-pounder gun was initiated in 1940-41 but long before guns were produced in quantity experience of tank warfare in Europe and North Africa had demonstrated that they were ineffective against any but the lightest tanks. A decision was made that it should be replaced by a 6-pounder gun, and from May 1942 the change-over began. It was intended that deliveries start in June and work up to a rate of twenty a month by April 1943. Production delays, however, were such that by September 1942 only twenty guns had been made.

By that time British battle defeats in North Africa had shown the limitations of the 6-pounder as a weapon against heavy tanks and discussion began on local production of the 17-pounder both as an anti-tank gun and for tank mounting. These used some of the components of a

1 War Cabinet Minute 1815, 30 Jan 1942.

25-pounder and of a 6-pounder and a few of those of the 2-pounder. It was contemplated that the rate of production of 25-pounder guns might be slowed down and as the 17-pounder programme developed it might take over the facilities used for the 6-pounder. At this stage the Army was forecasting an order for 1,600 17-pounders.

By August 1942 the 2-pounder programme was virtually wound up, and deliveries of the 6-pounder had begun, but the Army was becoming urgent in its requests for the 17-pounder because of the outdating of British guns in Libya. It would equip two-thirds of the proposed tank output with 17-pounders and the remainder with 25-pounders. The War Cabinet approved, but not unreasonably asked for assurances that this time it was not proposed to produce an obsolescent gun.[2]

The Army had by this time revised its requirements for 17-pounder ordnance: 528 anti-tank guns and 600 high velocity tank guns, a total of 1,128 to be backed up by a further 900 to cover war wastage. The Army proposed that the 6-pounder programme be cut off at a total of 500, but this was not practicable because production was already advanced. Moreover, the 6-pounder was given a short new lease of life by the use of a longer barrel, which improved performance. In the event, termination of the tank programme in 1943 meant that only 128 17-pounder guns were produced compared with 892 2-pounder and 900 6-pounder.

Production of sub-machine-guns was bedevilled by debates, at times acrimonious, about the merits of an Australian design, the Owen. Sub-machine-guns were a new weapon, for the British Army, which developed a simple and rather crude weapon, the Sten, which had not become available in Australia for some time. The Army was reluctant to consider the Owen, a new design not fully tested, and preferred to wait for the Sten which, however, on arrival proved a cruder weapon than had been expected. The case for the Owen was pressed by Lysaghts Pty Ltd, the likely manufacturer, and there was a good deal of debate in Parliament and in public over its virtues, with suggestions that an Australian invention was being suppressed for improper reasons. There were suggestions, to be proved untrue, that it could be produced in garage workshops. Munitions preferred the Sten, as modified in Australia and then called the Austen, because it presented fewer production problems and an output of 500 a week was forecast. The Owen required more tooling.

The final decision was a political one. An experimental order for 100 Owen guns placed in April 1941 was increased by a decision of the Minister for the Army to 200 in September. Outbreak of the Pacific war made the supply of sub-machine-guns urgent, and the Army in March 1942 indicated an ultimate need for 100,000 guns, some of which they hoped would be Austen. Munitions demurred, arguing that production of Bren and Vickers guns would be interrupted, to which the Army retorted that it needed sub-machine-guns in a hurry because of the lack of Bren and Vickers weapons. The outcome of a conference in March was a

[2] War Cabinet Minute 2408, 5 Oct 1942.

decision to produce both Austen and Owen guns on the assumption of an ultimate total demand for 100,000; the Austen was expected to be coming forward at 300 a month about July, and the Owen to reach quantity production soon after.

In practice production of the Owen was achieved more smoothly. By January 1943 when Army firm orders totalled 20,000 Austen and 30,000 Owen, deliveries were 2,152 Austen and 15,198 Owen; production rate was 500 a week for Owen and 200 for Austen. At this time both guns were the subject of redesign to simplify production. To glance ahead, final total production to the end of the war was 45,577 Owen and 19,904 Austen, with the Austen being phased out in 1944.

Rifles and machine-guns (Bren and Vickers) were produced at the government small-arms factory at Lithgow, New South Wales, before the war and production was later supplemented by factories at Bathurst and Orange. By June 1942 Lithgow employed 5,058 and was producing Bren guns at the rate of 6,000 a year and Vickers at the rate of 2,500. Bathurst then employed 1,600 and Orange 1,339, and the three together were producing rifles at the rate of 200,000 a year.

These government factories remained the chief suppliers of small-arms but smaller factories were opened in 1942 in New South Wales country towns as a conscious policy of decentralisation. The towns chosen were all to the west of Lithgow and with rail connection to it; Mudgee, Forbes and Wellington in 1942 and Cowra, Young, Dubbo, Parkes and Portland later. Some of these were relatively small; the peak employment at Parkes, for example, was 191. Little difficulty was experienced with rifle and machine-gun production because production techniques were well-established and designs stabilised.

Experience with pistols was less happy. Manufacture was entrusted to Howard Auto Cultivators Ltd but supply of tools and gauges proved difficult and even though output began by January 1942 the weapons were not acceptable to the Army and eventually in May 1943 the contract was transferred.

Production of 20-mm cannon for aircraft, for different reasons, had a checkered history. Commonwealth Aircraft Corporation Pty Ltd took up the Hispano cannon as a project during a slack period at the end of February 1942. This weapon was attractive to the Air Force which indicated a probable need for 430 on the basis of two per bomber or fighter, although it placed no firm orders. Only the Air Force wanted the Hispano, although the Navy was prepared to accept it. Production plans in March provided for 450 Hispanos to be made in Australia, with 200 being imported from the United States. The cannon was easy to make but progress was slow. Raw materials for the British design of the Hispano were in short supply and it was estimated that adherence to that design would delay production for up to eighteen months, whereas a revised design, it was claimed, could be produced in five months. It would accept United States, British, or French ammunition, but spare parts would not be interchangeable.

Because of this, Lend-Lease supply of machine tools was held up and the United States contemplated refusing the machine tools and sending instead 600 complete cannons. However it suddenly relented and announced that it would send both the guns and machine tools, but no guns had arrived by December, and only four machine tools; a United Kingdom contract for 200 guns was still unfilled. The Australian design had been abandoned, after all, in favour of reversion to the British, and the double change in design added to the cost and time required to complete the Air Force order for 420 guns. That order was confirmed in April 1943 but with a warning that there would be no further orders. As it turned out, production was slow (about six a week) and the order was to be terminated by the War Cabinet with only six completed guns which had passed inspection and only 202 fully completed guns. By then British-made guns were freely available, and the Air Force no longer wanted the Hispano for operational aircraft.

Yet another new type of gun of which production was undertaken was the Polsten, a British adaptation of the Italian Breda developed because the Bofors and 2-pounder had proved less successful at Tobruk. At a March 1942 conference on 20-mm cannon the Army had expressed a preference for the Oerlikon (an alternative to the Hispano) while, in the belief that the Hispano could be easily converted to land use, an order for 3,000 from the United States was contemplated. But influenced by information from Hartnett in the United States the Army changed its mind and ordered 8,000 Polstens, an order which was placed with General Motors-Holden's for delivery in ten months, because they were winding up their 6-pounder programme. The Army which, unlike the Navy and the Air Force, had no 20-mm weapon, was urging rapid delivery.

Some delay arose because barrel changes to the 6-pounder held up completion of that project. There was delay too with machine tools despite efforts to minimise the number to be sought under Lend-Lease: out of the 156 tools required only 50 were sought from the United States (the rest were to be produced locally or diverted from other projects) and it was, at one stage, proposed to cancel even this order when Lend-Lease demanded justification for producing the gun. Production finally began early in 1944, with the first assembly in July.

The 3-inch mortar was in production at the beginning of 1942, and in March the War Cabinet approved an order for 1,500 in advance of Army orders to maintain continuity of production, and in August there was a similar decision even though firm Army orders were not forthcoming. In September the Army indicated that it would require 148 by December and a further 400 thereafter. By that time, even allowing for some modest overseas orders, the original War Cabinet approval for 1,500 was 952 in excess. In December the project was terminated, with a total production of 1,936 (nominally orders placed had been for 3,200); at that time total Army requirements were fixed at 1,550, plus 150 for overseas orders.

In part the Army's reluctance to give firm orders had been due to uncertainty about the 4.2-inch British-designed mortar of which, in

expectation that its greater range would make it a substitute for wheeled artillery in jungle fighting, the Army ordered 500. Production was initiated promptly late in 1943, but completion was slow and by February 1944 the Army was reducing its order to 250. There was even less concrete result from plans for the 4-inch Mark XIX gun intended as a standard weapon for minesweepers and merchant vessels. First steps towards production had begun in August 1941, and in January 1942 the War Cabinet approved a programme based upon an annual output of 600. But production never really got going and the final output by June 1945 was only 40.

TORPEDOES

An even more striking case of the use of scarce resources to produce a weapon which never became available in wartime was that of torpedoes. Serious discussion of Australian torpedo production was sparked off by a United Kingdom inquiry in July 1941 as to the possibility of Australian production of any or all of three types of torpedo (including aircraft torpedoes), reinforced later by a firm order for 500 as a basis for establishing production. At that stage the Navy was keen on the project but Munitions was cool, arguing that 1,600 men or women would be required of whom twenty per cent would be highly skilled even if trade union objections to the use of semi-skilled could be minimised. Complete torpedoes could not be expected, according to Munitions, for three years. The Department of Air took a similarly pessimistic view and ordered 360 from the United Kingdom to be curtailed if and when locally made torpedoes became available.

Over several months there was a series of conferences exploring the problems of local manufacture, and including a good deal of argument as to the best type of torpedo to produce. The United Kingdom's proposed order to Australia was for the 18-inch torpedo made in the United Kingdom and in the end this seems to have been the decisive factor in preferring it to the principal alternative, the 22-inch produced in the United States and used by its forces. Supply from the United Kingdom, in response to the Department of Air order became an increasingly remote possibility and the United States indicated that it could not undertake to meet orders before 1943. Opinion in favour of local production was crystallising when Japan's entry into the war made the need seem urgent while supplies from overseas, it appeared, were now out of the question. A fortnight after Pearl Harbour the War Cabinet approved in principle local production of 18-inch torpedoes at the rate of ten a week, with the Navy as co-ordinating contractor responsible for final assembly, testing, etc. Production of major components was to be shared between Munitions and commercial industry. It was optimistically estimated that the first torpedoes would become available in mid-1943.

There followed a long story of delay and frustration. There was delay in securing specifications and drawings, and in finding additional buildings required by sub-contractors for components. The original contractor for the engines, Howard Auto Cultivators Ltd, on learning what was involved

in producing the high-precision, high-reliability engine withdrew (they had had unhappy experience over machine tools for pistol production, as well as coming to doubt their own capacity for this task). Somewhat belatedly, Lend-Lease came to question the project, at a time (February 1943) when Munitions was reporting that tooling up was thirty per cent completed and now depended on tools from the United States. These doubts are probably to be linked with the willingness indicated at this time of the United States to make more complete torpedoes available for Australian planes. During 1942 while refusing to accept Australian orders for torpedoes the United States had made available torpedoes for actual operations—which presumably implied operations under General MacArthur's[3] control.

The writing was already on the wall. Beyond the original order for 500 there were no more until June 1943 when the Department of Air foreshadowed an order for 290, implying that they had so far managed to make do with American allocations and were not in urgent need. Production problems continued and it was not until December 1943 (two and a half years after planning had begun, two years after definite authority to proceed) that the first engines were successfully tested. On 28th December, twelve days after General Motors-Holden's were notified of this success, the High Commission in London was cabling to report that the United Kingdom was about to seek cancellation of its order for 500 (with financial adjustments) because they were not only no longer needed, but, in fact, United Kingdom and United States production was now able to meet all likely needs. Indeed a substantial surplus of torpedoes was accumulating.

With the project so near fruition it was reasonable that the final steps were taken, and the first Australian-made torpedoes passed tests in February 1944. But production would have been pointless, even if the general tapering off of munitions production had not already been under way for a year. A nucleus of equipment and labour was retained for maintenance and repair and testing, and the main project closed down. Judgment by hindsight, when all the uncertainties of war have become history, is hazardous and in 1941, or even the first half of 1942, the project appeared to have its justification, the more so in view of the British initiative and encouragement. But by mid-1942, when so little had been attained, or in early 1943 when only thirty per cent of tools had been obtained and Lend-Lease Administration was challenging the project, the case for its continuance was more than doubtful even if the successful proving in February 1944 was evidence of achievement in high-precision engineering.

TANKS

The preliminary stages of the tank story have already been traced to the end of 1941.[4] When Japan entered the war, it appeared that the pro-

[3] Gen of Army Douglas MacArthur. Ch of Staff US Army 1930-35; CG US Army Forces in Far East 1941-42; C-in-C SWPA 1942-45; Supreme Cdr Allied Powers in Japan 1945-51. B. Arkanas, USA, 26 Jan 1880. Died 5 Apr 1964.

[4] Butlin, *War Economy 1939-1942*.

gramme had reached a decisive turning point. The A.C.2 type tank was to be dropped, and the A.C.1 proceeded with as a first priority task. The first experimental model of A.C.1 was completed in January 1942. It seemed that the project was over its worst trials and that an Australian-made tank in battle was now only a matter of time. In fact, however, a year and a half later the project was to be completely terminated with only a few obsolescent tanks produced, none of which was ever used in action.

A key part of the difficulty, sharply defined late in 1941, was the dependence of production plans on machine tools and components from the United States. There were in the new situation created by the Pacific war even more demands from all the Allies on American production, but in the case of the Australian tank programme a serious complicating factor was the marked scepticism of American authorities, and also of the British Purchasing Commission and even some Australian officials in Washington, about the capacity of Australia to produce a serviceable tank and of the seriousness with which the project was being pursued.

The instability of design during 1941 had undoubtedly reinforced this scepticism. The British Purchasing Commission wrote bluntly to Essington Lewis that the record had shown repeatedly that when orders for tools and components were lodged, it had endorsed them and pressed the Americans to supply, only to discover that the design had changed and the orders were cancelled. The Australians, it could appear in Washington, did not know what they were trying to build.[5] The difficulty continued. In June 1942 A. R. Code[6] learned by cable from Washington:

> In spite of continued assurances to the U.S.A. Ordnance and War Production Board to the effect that Australian tank designs are frozen, we find extreme difficulty in impressing this fact on the ever growing number of staff in the United States Department. Due to frequent changes of design in the past and problematical new improvements such as the Perrier over-drive it is impossible to convey the fact that the A.C.1 tank is actually in quantity production and that the design is frozen. Also that the A.C.3 design is frozen but is awaiting the delivery of gear boxes and final drives and certain engine accessories from the U.S.A.

The degree of confusion and misunderstanding was indicated by news that the Americans had received Australian assurances that the A.C.1 was "actually in quantity production". If the phrase were understood as meaning that some parts were, it was correct, but if it conveyed that complete tanks were in quantity production it was wildly incorrect, and through their own officials in Australia the Americans would have been well aware of this. The January 1942 experimental tank was truly experimental, and for another six months basic aspects of the A.C.1 design were still fluid. Casting tank hulls in one piece, a genuine and eventually successful innovation, had still to be proved and all samples produced before July 1942 failed firing tests. It was not in fact until August 1942 that the first A.C.1 tank manufactured by quantity production methods

[5] Letter of 27 Mar 1942.

[6] A. R. Code. Engineer: with Vacuum Oil Co till 1941; Dir of AFV Producn 1941-44; Brit Min of Supply in AFV Directorate 1944-46. B. Melbourne 1901. Died 11 Sep 1947.

came off the line at the Chullora, New South Wales, railway workshop annexe.

So, too, the "Munitions Digest" of June 1942 reported: "The pilot models have been inspected by officers of the United States Army in Australia who have been impressed with its design and performance. The tank construction programme has also been approved by the Army and the United States Lend-Lease mission in Australia, who have forwarded a cable . . . to the United States Secretary of State indicating this approval and requesting that a number of machine tools be despatched to Australia to enable us to increase our manufacturing capacity."[7] But the atmosphere in Washington was colder, and it was what happened there that mattered. In June 1942 Code was notified that all new Lend-Lease requisitions in connection with the tank programme were deferred pending a review of the programme, in which the questions to be answered included: the availability now of American tanks; the extent to which tank production was at the expense of more urgently needed railway rolling stock; delays in maintenance work on American tanks already in Australia because labour and equipment were pre-empted for tank production; and the probability that only a few tanks with components not interchangeable with American tanks already supplied or available would ever be produced. The Lend-Lease mission in Australia was asked to advise whether the tank programme should not be abandoned in favour of tank maintenance and production of railway rolling stock.[8]

The direct threat to the whole project was clear, and Munitions moved to block it. Already there had been moves to enlist the support of General MacArthur, who was technically the final authority in sponsoring Lend-Lease requisitions for munitions, moves which had been endorsed by the War Cabinet,[1] which ruled that the tank programme was to be "proceeded with and completed with the utmost despatch and vigour". The Director-General of Munitions was to report any difficulties to the Prime Minister who was then authorised to take these up with MacArthur. It would appear that Cabinet was not yet aware of the challenges to the programme from within Australia, and the effect of the decision was to reaffirm that the programme was settled government policy.

A month later Lewis asked Curtin to invoke MacArthur's support, and Curtin reported to Denby (of Lend-Lease) that he had talked to MacArthur, pointing out that Australian munitions authorities were well aware of the railway rolling stock programme (which the Americans regarded as a more urgent use of the labour and equipment involved) and that the tank programme would not interfere with it.[2] MacArthur did in fact endorse the preference: "I am most heartily in agreement with the proposal that Australia should have a tank programme. I will continue to give favourable endorsement to the requisitions and communications

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[7] "Munitions Digest", June 1942, p. 106.
[8] The Lend-Lease move was reported in a cable from Ash in Washington to Code, 3 Jun 1942.
[1] War Cabinet Minute 2255, 9 Jul 1942.
[2] Letter of 28 Aug 1942.

relating to the manufacture in Australia of tanks approved by the Australian Army and adopted by it as its standard equipment."[3]

Jensen correctly forecast that this would not be sufficient to do more than postpone matters. On 30th September Munitions was notified by cable that despite MacArthur all the latest papers, including criticisms by Denby and replies by Jensen, and various requisitions by MacArthur had been referred to the United States War Department for advice. Denby had already warned that only clear evidence that completion of the tank programme was still government policy and that the government had considered criticisms and objectives would serve. The reply drafted by Jensen was hardly calculated to carry conviction. Some of his points would have been relevant if their accuracy had not been questionable: that there was reserve capacity for railway rolling stock, or that completion of orders, as for guns, was about to release heavy engineering capacity. But his main points were not of the kind needed: he claimed that the tank programme was unanimously supported by Munitions, the Chiefs of Staff, the Prime Minister and War Cabinet; that Australia should do her share as far as possible by arming herself and that morale was better if Australians used Australian weapons. Criticism continued from the United States over details. There were repeated instances of orders being duplicated or triplicated even at this date, and of design changes leading to belated cancellation of orders.

By October the omens were so bad that Code made a special trip to the United States. His cables suggest that what he learned of an American report nearing completion had shaken him, and indicated that he was at least temporarily contemplating that Australia might have to proceed without American aid if it persisted with the Australian tank, or build American tanks. The office of the United States Chief of Ordnance had been studying the Australian tank for months before the reference to it in September, and in November 1942 it produced a report advising against the production design of Australian tanks. Its main points, other than design, and the replies drafted by Jensen, may be summarised. The Australian tank, it was pointed out, departed from the principle of standardisation of fighting equipment among the Allies. The retort that the Australian design was only a modified version of American tanks and that many parts were interchangeable with the American M3 and M4 was only a partial answer and did not meet the point that successive developments in American tanks were making the Australian design obsolescent. Shortage of machine tools would eventually delay completion of tanks; to which Jensen's reply that 361 machine tools had already been received and only 95 were undelivered could carry little weight in view of the concern so frequently expressed about delay in receiving machine tools. The United States report argued that by the time, still far off, when Australian tanks would be available to its Army, American tanks would be supplied more readily. Finally, the report endorsed what appeared to be a general American view: that further American supplies should not be committed

[3] Letter of 23 Jul 1942; reply by Jensen for Lewis 5 Aug 1942.

until it was established that they were needed, and would result in early production of a serviceable tank. In December 1942 the Munitions Assignment Board decided that future delivery of components should be limited to the quantity required for the construction of 20 tanks per month until July 1943, when the situation would be reviewed. The decision was a clear vote of no confidence, which avoided confrontation by making it possible for a modest number of tanks to be produced if Australia could in fact produce them with components most of which had already been delivered. Jensen demurred at the figure of 20 tanks a month, explaining that plans were for two manufacturing units, one in New South Wales, one in Victoria, and current thinking was to plan for 40, instead of 20 tanks a month; however, until production was running smoothly it would rely on components already in Australia.

By no means all criticism of the tank programme was American. Manpower authorities throughout 1942 were increasingly concerned at the demands on skilled labour from Munitions itself and from various railway annexes and private contractors employed.[4] No agreed figures were ever arrived at for the numbers employed on the tank programme, even for direct employment in Munitions itself. Manpower estimates were always substantially higher than the numbers Munitions admitted, perhaps because of difference in definitions. Three sets of estimates made at approximately the same time (mid-1943) illustrate the divergences. Munitions then claimed that only 2,357 departmental employees were engaged on the tank programme and 1,731 in non-departmental workshops. Allowing another 1,000 for those engaged in producing equipment for private contractors, the department admitted only 5,088 were so employed in all. Code (in June) produced figures purporting to show that the number required to produce 10 tanks a week (that is, 20 in Victoria and 20 in New South Wales each month) was 6,581. In August 1943 a technical sub-committee of the Defence Committee estimated that termination of the tank programme would release at least 8,000, apart from a consequential reduction in output of weapons and ammunition for the tanks.

Attempting to reconcile such figures, even more difficult for 1942, is profitless. The essential point is that throughout the second half of 1942 and on into 1943 Munitions was increasingly on the defensive over the amount of skilled labour used in attempting to produce a tank which was not yet a reality and to whose military justification there was mounting challenge. In the latter part of 1942 and early months of 1943 the debate between Munitions and Manpower was often acrimonious, so that even after the war it rankled with Jensen who wrote:

Manpower authority was a persistent opponent of the Australian tank project and I have suspicion that this opposition was founded on what it had been overhearing in

[4] Among the more important of these were (3) in N.S.W. four major contractors and over 100 sub-contractors: N.S.W. Railways Dept; a final assembly annex at Chullora; Bradford Kendall Ltd (hull and turret casting); Jorgenson Ltd (gear cutting); (b) Victoria: Newport workshops of Victorian Railways; workshops of Metropolitan Gas Company in Melbourne; Charles Ruwolt Ltd; (c) South Australia: Railway workshops; and so on.

Army circles, United States opposition, etc. They were suspicious of my figures on manpower and employment, and they were constantly attacking the tank programme in particular; this was something they could get support from the Army for . . . . When the tank programme was killed it made not the slightest impression on the labour market.[5]

The Army was far from happy about the programme. Naturally they wanted the best fighting tank they could get, as quickly as possible, but as early as late 1941 they were becoming vocal as they became aware of the adaptations of the original 1941 design (itself regarded as second best)[6] to compromise with the difficulties of production in Australia and problems of component supply from the United States. Design adaptations continued through 1942, even after the first prototype was produced in January, and at the end of that year the Army had become involved in an inconclusive dispute about responsibility for design. Its view was that since its men would have to use the tank in action its word on design should be final. Munitions countered by arguing that separation of design from production would not work, although conceding that the Army must be the final authority on whether designs were acceptable.[7] At one stage the Army demanded that the design staff of the Armoured Fighting Vehicles Directorate should be transferred to the Army. Code, the practical technical man, reacted vigorously, taking the view that the Army should confine itself to approving basic original specifications and to approval of the final product. All that happened in between was a production job.[8]

The dispute simmered on, soon to be submerged in more fundamental challenge to the whole project, in which Manpower Directorate criticism and United States pressure converged. But a part of the evidence is the fact that the Army was not at all satisfied with what it progressively learned of the kind of tank it could expect to get eventually, especially as by early 1943 prospects of supply of more advanced American tanks proven in battle steadily improved. The War Commitments Committee had already set the stage for critical scutiny of all projects; each must be examined in the light of acceptance of the view that manpower available was inadequate for all. The tank programme was a clear case for sceptical reassessment. Important as this was in the final decision to close the project down, the issue came to a head early, because the Americans, in the face of the evident intention of the Department of Munitions to continue with the project at least within the limits of components and equipment already received, determined to send a tank expert, Colonel G. A. Green,[1] charged

[5] From rough draft of material for a history of Munitions, which Jensen did not live to complete, and of which an advanced draft was produced for the war of 1914-18, the inter-war period and the first two years of the war of 1939-45. Jensen was somewhat cavalier in removing papers from departmental files to assemble as working papers for this history, and a very large collection of material, no longer in its original filing order, is now with Australian Archives.

[6] See Butlin, *War Economy, 1939-1942*, pp. 319-22.

[7] For example Jensen to Lewis 28 January 1943: "If therefore the Army is dissatisfied with the present methods of design and desires a change, then I think we have no alternative to agreement."

[8] A number of papers relating to this issue are in the Jensen papers, file 730-6.

[1] Col G. A. Green, MC (Capt in Royal Tank Corps 1917-18). Consulting Engineer to U.S. Sec of War 1940-41; Lend-Lease Administrator in London; Asst Dir of Industry on Marshal Plan, Paris, 1948-49. B. Sydney 8 Jul 1882. Died 21 Feb 1949.

formally with finalising all Australian tank requirements from July 1943 onwards.

The proposal was highly unwelcome to Munitions. Lewis wrote to Denby "whilst in normal circumstances we would be delighted to receive Colonel Green or any other tank expert in this country, I do feel we should progress somewhat further along the line of our new mark of tanks so that anybody visiting us can actually see these particular tanks in production".[2] Undeterred, Green arrived a few weeks later and after a month had completed a report which was the death-knell of the whole project.[3] It was not, however, a pre-packaged report. Green was well-briefed before arrival, but was very thorough in explorations on the spot, including, for example, a key discussion with Lewis in the presence of Blamey. Even Code, the technical enthusiast for the Australian tank, conceded that the report was fair and impartial, questioning it only to argue that there was more justification for the original adoption of the project than Green allowed.[4]

Green stated his main theme accurately in a foreword, that his "criticism of Australia's tank programme is directed primarily at the policy which has been adopted rather than its method of execution. Prior to 1940 Australia did not possess an Armoured Fighting Vehicle industry and its tank background was nil; consequently it was manifestly impossible to expect production of battleworthy tanks in sufficient time to meet an imminent invasion; furthermore technical difficulties which must inevitably be encountered in production of tanks were not sufficiently realised and an adequate test programme was not envisaged".

Green pointed out that the tank programme at the time of his survey involved three models. Mark I (A.C.1): 65 were to be produced; 58 had been completed, and 35 delivered; six were in use, three in Army testing and three for training. It had a 2-pounder gun. Mark III: plans were for 200, of which so far a pilot model had been completed and was being tested. It had a 25-pounder gun. Mark IV: 510 were proposed, but the design work was still incomplete. In short, Australia was trying to produce at one time three models of tank, before any had been tried in battle, and the testing programmes for which were in Green's view quite inadequate. He recited various weaknesses in Mark I and Mark III to support his view that Mark I was not a machine suitable for combat, and Mark III

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[2] Letter of 16 Mar 1943.

[3] Report 17 May 1943. Presented to War Cabinet 13 Jul 1943 (War Cabinet Agendum 299/1943, Appendix C).

[4] Note attached to Report as presented to Cabinet. This was important because a number of Australian officials, both in Washington and Australia, regarded Green as anti-Australian. A. C. Moore of the Division of Import Procurement was particularly hostile. In a letter to Jensen of 25 June 1943, he accused Green, on his return to Washington, of spreading the view (not entirely without justification) that Australia had been ordering machine tools in excess of war requirements, with an eye to post-war industrial expansion. Some months later he wrote again (10 June 1944): "I am taking up with Colonel Hodgson the question of whether anything can be done to prevent the United States authorities from sending Col. Green out to Australia again. There are certain officials in Washington who feel that Green did a very good piece of work in suppressing the Australian tank programme, and I feel certain that they would like to have him stationed out here again to investigate other projects. It is known to me that Col. Green is violently anti-Australian in outlook and if he were used again as an investigating agent we could not hope to get a fair representation of Australia presented through him." Others in Australia beside Code were to accept Green's report as highly unpalatable, but just.

had basic faults which made it too unreliable.[5] The Mark IV would be a much more advanced type, which promised to be an acceptable battle-worthy vehicle. Green's comments on Australian design and production work were not all criticisms, and in particular he praised the innovation of hull-casting, the low profile of the tanks, and the "excellent" design of the gun mountings.[6]

He went on to emphasise the skilled manpower demands of the programme which, in his view, would be better utilised on production of tank spare parts, small boats for military use, tractors for food production and rolling stock for the railways. Machine tools required were to a large extent general purpose machines; on the 20-tank-a-week basis requisitions for 706 had been made and a high proportion supplied. If the token programme of tank production he proposed were adopted, only 390 would be needed and some at least of the others could be returned to the United States if high-priority uses were not available in Australia.

The Australian Army informed him that it had by this time received 1,624 tanks, comprising 487 United States light tanks, 757 United States medium, and 380 United Kingdom Matilda tanks. These were not always ideal for the purpose (for example the United States medium tanks had a limited gun traverse) but they were well in excess of current Army needs. Future imports of more advanced tanks were restricted primarily by the shipping shortage but some further imports were possible. Green did not propose that because of this Australia should cease all tank production but presented an argument, which Munitions should have welcomed, for a minimum programme mainly designed to prove designs for the Mark IV, and to provide a nucleus of productive capacity for possible expansion in an emergency.

Blamey endorsed these views.[7] He said the Army had all the tanks it required, with one hundred in reserve; local production could be regarded as insurance for an emergency, but clearly could not meet a sudden demand for a large number of vehicles. The Munitions representatives, faced by the hard facts collected by Green, and rejection by their own Army, could only agree to the recommendations of the meeting that production of Mark III should cease; that Mark IV designs should be completed, using standardised components; that productive capacity for ten tanks a week should be established and proved; and that their output

[5] It should be noted that most of these technical criticisms had already been made by Australian authorities. Thus General Northcott to Lewis, 12 April 1943, reports Army reaction to Mark I, that "the Army cannot accept any further deliveries of Tank A.C.1" until a long list of improvements, some described as "utterly necessary" were made. These included inadequate and unreliable turret traverse tyres which gave bad service and wore out rapidly, inadequate engine cooling and ventilation arrangements and unacceptable radio installation. Not by any means isolated, this was a report on the latest testing, after much redesign, of a tank the first test model of which had been produced sixteen months earlier.

[6] Code's comments on the report, in the form of a letter to Green dated 17 May 1943 (see above), do not dispute Green's catalogue of faults, being mainly concerned to explain why shortages of materials, components, etc. had forced adaptations which had proved unsatisfactory. He took a more optimistic view of the possibilities of correcting many of the faults of the Mark III, which he expected would become "at least a useful fighting weapon", and foreshadowed that the lessons that had been learned were being incorporated in Mark IV.

[7] Record of a meeeting in Blamey's office between Blamey, Lewis, Code, Robertson (Lend-Lease) and Green, on 7 May 1943, incorporated in Green's report.

should be limited to six a week. In somewhat fuller form these became the "conclusions" of Green's report.

The final chapter was the "Review of Australian Tank Production Policy" which F. M. Forde,[8] Minister for the Army, presented to War Cabinet together with Green's report. Formally Forde left it to Cabinet to decide whether tank production should be continued, but the review left open no rational decision other than to terminate the project.[9] Shorn of detail, the review made three main points: first, the Australian Army already had a surplus of tanks. The Army specified 588 as basic equipment, with twelve months' reserve estimated at 637; against the sum of these two figures, 1,225, the Army had received 1,478 tanks from the United States and the United Kingdom. Despite all the shipping and other difficulties, no less than 1,400 tanks had been shipped to Australia during eight months of 1942, and the difficulties, though real, would be less in the future. The Army desired some tanks of a different type, but these were not of the type included in the Australian programme. The United States was able to supply for early delivery 300 to 400 Sherman tanks.[1] Second, the war situation had so changed that it was improbable that Australian armoured forces would be in action against the enemy and even the tanks already in service were almost certainly far in excess of war needs. The only Australian tank worth persisting with, the Mark IV, would not be available for many months and war use for it in view of the promise of the superior Shermans was extremely unlikely. In short, there was no longer any point in producing tanks in Australia. Third, other needs for the manpower, materials and equipment were far more urgent than local tank production. While some productive capacity (for example facilities for large castings) had no obvious alternative use, almost all could be immediately diverted.[2]

Termination of the programme was inevitable. With hindsight, what is notable is that the question was not posed earlier. In 1940 when the initial decisions were taken, a modest tank programme could have seemed right. The war was then remote and both number and quality of tanks required could seem small, while the prospect of imports could seem remote. The fact that the project would be a long-term one was not then a serious objection. Nor was pressure on manpower or other resources a difficulty. In the totally different circumstances of 1942 there were not wanting voices to challenge continuance. But those who had committted themselves to the programme were not easily converted. Jensen, with the determination of a lifetime's devotion to building up Australian munitions

[8] Rt-Hon F. M. Forde. MLA Qld 1917-22 and 1955-57. MHR 1922-46; Min for Trade and Customs 1930-31, Army 1941-45, Defence 1946. Deputy Prime Minister 1941-45; Prime Minister July 1945. High Commr for Aust in Canada 1946-53. B. Mitchell, Qld, 18 Jul 1890.

[9] War Cabinet Agendum 299/1943, 1 Jul 1943.

[1] The agenda recommended that, whatever happened about Australian tank production, 310 Sherman tanks be ordered.

[2] The review used the (low) Munitions figure of 2,357 as the number employed directly by the Department on the project. Total expenditure so far incurred had been £6,000,000; but for the full programme £17,000,000 had been authorised. Since the latter figure was unlikely to be an underestimate of costs, it was, crudely, an indication of the substantial resources which would be involved in persisting with the programme.

production; Code with his personal commitment to solving the problems of a demanding production project; the Army hoping, despite disappointments, for a usable tank so long as imports continued to be difficult; technical men fired with a desire to solve technical problems; and many who (apart from Jensen's vision of a post-war munitions industry) could foresee the industrial base for long-term use which was being forged; all were insensitive to the competing demands of other urgent needs. These men held sincere convictions and enthusiasms which could only be overcome by overwhelming evidence, and that evidence was not available until, as 1942 proved, the unpromising prospects for a battleworthy Australian tank, the availability of imports, the change in the war situation, and the over-commitment of the Australian economy emerged and could not be denied. Acceptance of all these made abandonment of the programme inescapable, but it was only the clear determination of the Americans to deny to the programme all future support, and their insistence on Green's investigation (which brought all these issues to sharp focus) that belatedly brought the project to an end. In equipment, know-how and training of labour, its contribution to post-war industrial development was significant, but as a war measure it was disastrously wasteful and was persisted in far too long.

AIRCRAFT PRODUCTION

The shock of Japanese attack made possible the prompt achievement of plans to reorganise and integrate aircraft production which had been progressing slowly. As things stood the Aircraft Production Commission was responsible for producing the Beaufort bomber through some 400 sub-contractors while the privately-owned Commonwealth Aircraft Corporation was building the Wirraway; the De Havilland Aircraft Company had contracts for trainer aircraft, and other government and private agencies were involved. Co-ordination of these through a Department of Aircraft Production had not worked well. The Minister, Senator D. Cameron,[3] spoke of "divided control"; there were personality clashes and conflicts inevitable in a situation where competing private enterprises were each seeking to be leaders in the nascent aircraft production industry; there were, particularly at the Commonwealth Aircraft Corporation's factory at Lidcombe, unhappy industrial relations.

A series of conferences starting early in December 1941 was able, in the new military situation, to reach a solution, though not without feathers being ruffled, as reflected in the Press statement in which the Minister foreshadowed the new arrangements: "It is now anticipated that difficulties arising from divided control . . . will be removed. I have been thoroughly dissatisfied with the output of aircraft at present, which I think could be increased, and with a greater degree of co-ordination. Although good work has been done up to a point, better must be done."[4]

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[3] Hon D. Cameron. Senator 1937-62. Min for Aircraft Production 1941-45; PMG 1945-49. B. North Melbourne, 19 Jan 1878. Died 20 Aug 1962.

[4] *Digest of Decisions and Announcements*, No. 12, p. 12, 17 Dec. 1941.

The organisational changes announced on 6th January were far-reaching.[5] The Aircraft Production Commission disappeared as a separate entity and the Commonwealth Aircraft Corporation was brought directly into the departmental structure by appointing its general manager, L. J. Wackett,[6] as chief technical adviser. To smooth relations with the divergent interests in the industry there was an Aircraft Advisory Committee comprising under the chairmanship of the Director-General of Aircraft Production: a permanent public servant; representatives of the Air Force; Commonwealth Aircraft Corporation; De Havilland; one representative of government aircraft manufacture, one of aircraft maintenance and repair; a trade union representative; and a Treasury member.

Co-ordination of aircraft production with munitions was provided for by making Essington Lewis, Director-General of Munitions, also Director-General of Aircraft Production. Paralleling the relationship in the Department of Munitions between Lewis as Director-General and Jensen as Secretary, the post of Secretary of the Department of Aircraft Production was established, likewise to be filled by a permanent public servant. But in this case, in high degree because of previous conflicts, the man chosen was without involvement in earlier developments: Daniel McVey, formerly administrative head of the Post Office and only recently appointed as Director of War Organisation of Industry.[7] In view of the importance then attached to the role of that Department, the choice underlined the determination to make aircraft production efficient.

The reconstructed department was given comprehensive power over all aspects of production, acquisition, repair and maintenance of aircraft (except those in the possession of the Air Force) and the Director-General had, so far as legal authority could ensure, absolute power of direction and control over all aspects of the industry, including authority to issue directions to contractors and sub-contractors, and to acquire, compulsorily if necessary, any "property" other than land. These were indeed comprehensive powers, declared to be unrestricted by any other law, but the creation of the Advisory Committee indicated recognition of the need to reserve their strict application for those cases where co-operation was not forthcoming, and, at the same time, to institutionalise possible conflicts of interest by making them subjects of open discussion and record in the Committee.

Accompanying the reorganisation was a decision to accord to aircraft and anti-aircraft guns the highest priority, conveyed to Parliament by Curtin in a statement on 16th December 1941 and amplified in War Cabinet two days later so that his Ministers should appreciate that projects within their own fields, of less demanding urgency, might suffer. A like urgency attached to some items of Army equipment, and the Director-General of Munitions in a letter to the Minister for the Army of 30th

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[5] *Digest of Decisions and Announcements*, No. 14, pp. 13-14, largely a condensed version of the Regulations.

[6] W Cdr Sir Lawrence Wackett, DFC, AFC; (Served 1st AIF.) RAAF 1919-30; Managing Director C'wealth Aircraft Corpn 1936-60. B. Townsville, Qld, 2 Jan 1896.

[7] See Butlin, *War Economy 1939-1942*.

December made clear his intention to divert productive resources from long-range projects to those in progress or about to begin.

There followed a series of important changes in aircraft production policy. On 2nd February War Cabinet approved rapid termination of the trainer aircraft programme, which had been a Commonwealth Aircraft Corporation and De Havilland activity, and diversion of capacity to operational aircraft, with first priority to the Beaufort bomber, which had been the concern of the now defunct Aircraft Production Commission. The overall programme as now revised was:

(1) Beaufort bombers to have first claim on capacity, output to be increased as fast as possible from the current 20 to 40 per month.

(2) The Commonwealth Aircraft Corporation to switch to producing 105 CA-4 bombers.

(3) As an insurance against inability to receive fighters from overseas, 100 Wirraway interceptor-fighters to be produced, at an estimated cost of £1,650,000.

(4) Termination of the Wirraway trainer, and single-row Wasp engine programmes as soon as existing R.A.A.F. orders were completed. United Kingdom orders for 245 Wirraway trainers to be cancelled.

(5) Termination of the Tiger Moth trainer project as soon as orders being completed were fulfilled.

(6) Production of 87 De Havilland-84 aircraft (already approved in 1941).

(7) Expansion of output of twin-row Wasp engine.

(8) Gypsy Moth engine production to stop as soon as engines needed for the Tiger Moth and DH-84 planes were completed.

The programme explicitly assumed that Australia would still receive the 54 Beaufighters on order from England and 300 Vultee Vengeance fighters from the United States.[8]

Originally the Beauforts were to be produced on the basis of equal shares in cost by Australia and the United Kingdom. The first was completed in September 1941, at which time the order was increased from 180 to 270. At that stage Britain estimated that its need for Beauforts east of Suez was 40 per month and undertook to accept any excess of the aircraft above Australian needs. But in April 1942, as the war moved closer to the Australian mainland, the Government made it plain that it proposed to claim the whole of the first 180 Beauforts it produced for its own air force. Britain acquiesced, but not without polite protest at Australia's unilateral withdrawal from the general pooling of aircraft production.

By July the Minister for Aircraft Production presented a report on the Beaufort programme and plans for its expansion. Orders totalled 271 aircraft and the planned rate of output was 40 per month, but it was argued that production under pressure at this rate would be disruptive unless it could be planned to continue for 450 aircraft, since otherwise there would be an abrupt cessation of output before the department was ready to follow on with another aircraft.[1] War Cabinet approved the 450 together with spares which were the equivalent of a further 100 aircraft. The

[8] War Cabinet Minute 1845, 2 Feb 1942.
[1] War Cabinet Agendum 257/42, 16 Jul 1942.

total cost was estimated at £25,000,000 and the United Kingdom was to be invited to accept any planes that proved to be surplus to Australian requirements, although Australia assumed responsibility for the whole project. Production progress was good; for example, the target for deliveries by October 1942 was 140 aircraft, but in fact 159 were delivered.

In December 1942 the Director-General of Aircraft Production and the Chief of the Air Staff presented a report looking forward two years and beyond. Ideally, by 1944 the aircraft industry should be producing a more advanced aircraft than the Beaufort but that was the earliest such a plane could be developed, and well before that time the existing Beaufort programme would have been completed. The Department urged, and War Cabinet approved, extension of the Beaufort programme with production at the rate of 30 per month;[2] in January 1943 the new ceiling for Beaufort bombers was set at 700.

The December 1942 decisions about aircraft production also included the fighter version of the Beaufort, the Beaufighter, of which 350 were approved at an estimated cost of £17,500,000, claimed to be less than the cost of overseas purchase. The first was delivered in May 1944. These December decisions were to have major importance for Munitions as well as Aircraft Production. Tooling up to produce the best type proven aircraft by 1944, as the Cabinet decision stipulated, required major commitment of resources in addition to current production. Thus during 1943 when the War Commitments Committee and Manpower were seeking to extract labour from Munitions, as fast as it was released by curtailment of Munitions projects it flowed away, within the same overall organisation, to Aircraft Production.

As noted earlier, the reorientation of aircraft production decided in February 1942 included the termination of production of trainer aircraft and this was completed by June 1942. Concurrently, production of Wirraway interceptors was to absorb capacity released and 100 aircraft were ordered to bridge the gap until the CA-4 bomber could absorb the capacity formerly used for trainers, and to provide for interruption of overseas supply. For this reason it was designed to use as many components of the trainer version of the Wirraway as possible. For similar reasons it was proposed to extend production of Boomerang fighters and an additional 100 were authorised in October, but explicitly as a project which should not be allowed to interfere with Beaufort production. Aircraft Production in July 1943, contemplating a gap in production on completion of these Boomerangs before it was ready for its next project—350 Mustang fighters due to commence in June 1944—urged further Boomerang production only to learn that the Air Force did not want them. However, the alternative the Air Force suggested, of producing more Wirraways, would have involved delay and disruption and the compromise was to increase the Boomerang order by 50 to slow down production so that the total programme would continue until the Commonwealth Aircraft Corporation was ready to start delivery of Mustangs.

[2] War Cabinet Minute 2504, 7 Dec 1942.

By contrast with the Beaufort, Boomerang and Beaufighter, another aircraft project of the Commonwealth Aircraft Corporation was a story of failure. This was the CA-4 Torpedo Dive Bomber, of which a preliminary twenty were ordered in January 1943. The prototype blew up and only one production aircraft was produced, and in September 1944 War Cabinet ordered that the project cease so that resources could be diverted to the Mustang.

The De Havilland wartime operations included both trainer and combat aircraft, as well as propellers of all types, and this company had very good relations with the Government, by contrast with the Commonwealth Aircraft Corporation. By the end of 1941 De Havilland had delivered 718 Tiger Moth trainers out of a total order of 1,035, and the last plane was delivered in August 1942, freeing the company to embark on its next task, the DH-84A Dragon. The engines for the first Tiger Moths had been imported from the United Kingdom but thereafter General Motors-Holden's undertook manufacture of Gypsy Major engines for this aircraft and for the Dragon which followed. The Cabinet approved production of 50 Dragons to be produced locally by De Havilland, to replace the Anson, deliveries of which had been unsatisfactory. Production did not in the end begin until October 1942, and the order, increased to 87, was not completed until June 1943.

In March 1942 De Havilland was given a further task: to plan the production of a Mosquito fighter.[3] Investigation took several months, including sending staff to the United States and the United Kingdom, and the company presented its programme in September. It proposed to rely on imported engines (the United Kingdom agreed to release 660 Merlin engines on order from the United States) and to use sub-contractors extensively. To avoid interference with other aircraft production, labour was to be obtained from other De Havilland projects (Tiger Moths and Dragons) and by additional employment of women.

Production was planned to start in March 1943, with an output of 20 per month by July. The justification for the project was the planned expansion of the R.A.A.F. Total cost was estimated at nearly £10,000,000, rather more than half in Lend-Lease supplies. Cabinet approved in September 1942, and with special endorsement by MacArthur to ensure Lend-Lease supply, the project went ahead. The first aircraft was successfully tested in July 1943, but production difficulties delayed deliveries to the Air Force until March 1944.

Aircraft engine manufacture in Australia was undertaken by two companies: the single-row and twin-row Wasp engines by the Commonwealth Aircraft Corporation and the Gypsy Major by General Motors-Holden's. The twin-row Wasp was the only high-powered aero engine produced locally, and the Lidcombe, New South Wales, factory of the Commonwealth Aircraft Corporation was designed to produce 40 engines a month. Plans to increase this output in 1943 did not come to fruition partly because imported machine tools failed to arrive but more because

[3] War Cabinet Minute 2055, 31 Mar 1942.

maintenance and repair activities proved more urgent. The Commonwealth Aircraft Corporation's Fishermen's Bend, Victoria, factory, which was intended to produce complete engines, as a result produced only some components for Lidcombe.

Development of service and repair facilities outside the Air Force was on a modest scale at the beginning of 1942, when only 900 men were employed. Expansion then began and the need for it was more than doubled with the arrival of the United States Air Force, which introduced the latest type of combat aircraft and engines whose urgent priority overrode the needs of new, less sophisticated aircraft production. In February 1942 the Cabinet approved extensive development of service and repair facilities, which in view of the possibility of invasion it was proposed to disperse inland. This would have greatly increased cost and involved duplication of facilities but the dispersal programme was not carried through. Altogether 8 engine overhaul workshops, 5 machine shops, 9 hangars and workshops, and associated facilities were established in 1942 and were the main maintenance and service facilities of the United States Air Force in the South-West Pacific Area until the end of 1942. When the pressure for handling combat aircraft slackened these facilities were used for the assembly of new planes, and modifications of older designs. The amount of work for the United States Air Force was so great that specialised facilities were developed, and by May 1944 the total number of people engaged on aircraft repair and maintenance was 12,080.[4]

THE TURNING POINT FOR THE MUNITIONS ORGANISATION

The spreading acceptance during the last months of 1942 of the view that the Australian economy was overcommitted rested primarily on the contrast between the maximum manpower likely to be available and the requirements implied by all the projects approved or proposed, and in this context it has been traced in the previous chapter. Munitions was necessarily in the centre of that discussion, both because of the numbers of men and women involved and because of its need for skilled workers, and correspondingly it was directly involved in the War Cabinet decision of January 1943 adopting the view of the War Commitments Committee that there must be searching examination of commitments and scaling down to what was possible.

But there were specific developments in the Munitions programme itself which made the time opportune for scrutiny. For three years the Department had been expanding productive capacity and while it was able, even with increasing difficulty, to secure the labour it demanded it could and did undertake commitments to produce a wide variety of weapons, ammunition and equipment, projects large and small. There was little evidence that in Munitions itself there were any doubts that too much, of too wide a variety, was being undertaken, or serious questioning of whether in prac-

[4] Many items produced by Munitions have been omitted from this account of specific programmes. For scientific and technical aspects of many of these, see Mellor, *The Role of Science and Industry*. Similarly, fuller discussion of aircraft programmes initiated in 1942 is deferred to Chapter 15.

tice long-range projects would come to fruition in time to affect the course of war. But by late 1942 some questions were plain.

The magnitude of the total expansion in munitions is roughly indicated by some expenditure figures.[5]

Department of Munitions Expenditure
£ million

	Building and Works	Other (excluding Lend-Lease)
1939-40	0.7	3.3
1940-41	3.9	25.5
1941-42	9.7	78.0
1942-43	8.3	122.9
1943-44	4.3	102.3
1944-45	0.7	71.2
1945-46	—	35.8

By the middle of the period much of the basic capital development was complete. Works and buildings, plant and machine tools and stocks of materials for many of the basic projects were established, and for a number of items it was already clear that production was in excess of likely requirements, not only in those cases where output had been maintained in the absence of Service orders on the "continuity of production" argument. That policy, whatever the original thinking behind it, insulated Munitions to some extent from the full stringency of the increasing manpower shortage because transfers in employment within the Munitions group were not subject to Manpower control. Wurth increasingly in 1942 complained that Manpower was denied information about these transfers and could not therefore assess Munitions' demands for ever more labour; while Lewis resisted what he saw as improper efforts to control Munitions deployment of labour already employed.

Indeed it was not until 1943 that there is any clear evidence that Munitions genuinely accepted the view that labour in total was far below demands; the Department continued to think of labour shortage as primarily an administrative problem. Relations between Munitions and Manpower became increasingly strained and correspondence at times verged on the acrimonious. Lewis in particular appears to have been genuinely convinced, even to the end of 1942, that the labour sought by Munitions could be supplied if labour administration were more efficient. He set out some of his complaints in a statement before the Advisory War Council on 7th September 1942, and these included: undue tenderness in labour dilution in toolmaking at Lithgow, Footscray and Maribyrnong, as he saw it, to be really ruthless in diverting labour from non-essential to essential activities; failure to make labour available specifically for Munitions, in particular compulsory diversion of female labour in South Australia, and so on. In other documents and also orally he expressed the view that the Department of War Organisation of Industry was making Press statements

[5] These accounting figures, produced by the Department after the war ended, do not include Lend-Lease, and because of accounting conventions employed should not be interpreted as indicating other than the size of the changes involved from year to year.

and issuing orders about non-essential activities instead of getting on with the job of pushing labour out of these fields, while he saw Manpower as similarly active in firing paper weapons but not producing labour. Realisation came slowly that by late 1942 "non-essential" activities had been so slashed that any remaining pockets of labour were small, and "essential" activities so curtailed that there was real hardship for large numbers of the population.

Manpower on the other hand, acutely conscious as it was of the dwindling supplies of labour, resented its inability to learn exactly how Munitions was using the labour it had. Suspicious of the basis of claims for additional labour, Manpower criticised—on grounds which technical experts could resent—the wide spread of Munitions commitments and specific projects such as the tank programme.

An example of how, increasingly, the two departments clashed, and how each could feel its view was right was a dispute in late 1942 over the supply of labour for Finsbury and Salisbury explosives factories. Munitions' view was in essence that these factories had been approved and construction begun many months before, and the ultimate need for labour had been known to Manpower, while, so it seemed, female labour existed in Adelaide (in, for example, retail shops and in women not employed) which Manpower could and should direct to the factories. Manpower took the view that the factories were located too far from Adelaide to be able to get women to accept the long hours of travel; that reserves of female labour in Adelaide, whatever they may have been two years earlier, were now nearly exhausted; that Munitions itself by the multiplicity of its projects since adopted had denied itself the right to hark back to the time when Salisbury and Finsbury had been approved. The dispute became involved in trivial details concerning, for example, the reliability of a list of girls in New South Wales said to be willing to go to Salisbury, and there was some cheap scoring of debating points on very small matters by both sides, interesting only as illustrating the charged atmosphere of relations. Labour was eventually found but the dispute, typical of many, was symptomatic of bitter feelings which continued into 1943. In most such clashes there appeared to be both right and fault on each side, but the central point was that on the overriding issue Manpower was right: there simply was not, overall, the labour which Munitions still believed could be found.

But it would be wrong to assume that Munitions was insensitive to change. There was growing awareness of the pressure of conflicting demands of the varied projects within Munitions on scarce supplies, not only of labour but of machine tools; the tank programme, for example, was not without its Munitions critics. There were specific signs that the Department was becoming more conscious of the need to restrain its uncoordinated growth. In December 1942 a meeting of the chairmen of the State Boards of Area Management was directed by Lewis that the practice of accepting orders for which local capacity did not exist and then creating that capacity must cease. The particular occasion was an incident

in Western Australia where local empire-building had resulted in acceptance of an order which could have been met from the existing capacity in the eastern States, and then the committing of £20,000 to setting up a foundry in the works of Tomlinson and Company to produce in Western Australia. The incident was worsened because the Western Australian munitions officer had at no stage properly investigated the capacity of the firm to handle the order. The case was not isolated, and for the first time effective restraint was imposed from within the Department by prescribing that new capacity for munitions production in private industry should not be supported by Area Boards unless two conditions were met: that the order could not be satisfied from other sources, and that there was a definite post-war use for the proposed capacity. The earlier laxity had been understandable. During late 1941 and early 1942 the need to produce, almost anywhere and anyhow, had seemed urgent and the inadequacy of then existing capacity painfully clear. It was not the concern of private firms to assess the overall capacity of industry but only their own ability to do the job, and their interest, including their post-war interest, was in being the enterprise enabled to expand by acquiring capital resources of continuing value. Area Boards drawn mainly from private enterprise were not inherently disposed to be critical, and were vulnerable to ambitions for development in their own States. Senior officers of the various directorates, each of which had many of the attributes of a separate enterprise, frequently displayed the limitations of the practical industrial expertise which was their great virtue, in feeling no obligation to concern themselves with anything but the achievement of their own particular programmes.

Overriding these developments within the Munitions organisation was the process by which, through a confusion of committees, the War Commitments Committee was finally able to meet on 6th January 1943 to discuss the review of commitments ordered by the Full Cabinet. Along the way Munitions officials, in playing their part in preparing information for the review, had been required to scrutinise the Department's activities and plans, and, in accordance with a War Cabinet direction of 7th December to relate these to parallel reviews by the Service departments of their needs for materials, ammunition and weapons. In the process they were made more fully aware of the other demands on available labour resources and of the slender resources that remained to be tapped.

The central conclusion of the War Commitments Committee has already been noted: existing plans for recruitment into the Services, and for munitions, aircraft and shipbuilding would require *additional* labour at the rate of 35,000 a month, and the best that could be hoped for with the most stringent restrictions on civilian industries was 10,000 a month. Of the 35,000 required by planned developments, 16,000 men and 6,000 women were sought by the Services and only a minority of these could be drawn from new cohorts of young people attaining military age and from civil industry; a major part must be taken from war production and if possible replaced by those not suitable for the Services.

For Munitions the situation at that time can be summarised succinctly. Total employment (exclusive of employees of private industry engaged on munitions contracts) at 31st December 1942 was reported as:

	Males	Females	Total
Government factories	32,550	20,360	52,910
Annexes	16,266	5,196	21,462
Total	48,816	25,556	74,372

But, it was claimed (and the Committee accepted the figures as a working basis) that had the Department been able to secure all the labour required in 1942 for approved programmes in munitions and aircraft it would have had a further 33,000 males and 17,000 females, and until this deficiency was made good the planned output could not be provided. Over and above this total of 50,000,[6] the department estimated that work scheduled for the first six months of 1943 could require 15,000 males and 13,000 females. (These figures provided for release from Munitions of those called up for military service.) If the figures were accepted at face value, munitions and aircraft production alone required 78,000 men and women in those six months against the estimated maximum supply for all purposes of 60,000.

If Munitions (and other claimants for labour) had hoped to secure from the Committee a broad allocation of the manpower cake, they were disappointed. Instead the Committee concluded, and War Cabinet endorsed its findings, that the total programme *must* be scaled down to fit within the available labour supplies and that to this end the Defence Committee should expeditiously re-examine all plans for expansion of the Services and war production and secure their revision.

More specifically the Director-General of Munitions was told that within the Munitions complex labour already employed must be redistributed from low priority work to high priority work, in particular to shipbuilding and ship repair. (Manpower was at the same time invited to give special attention to finding skilled men from other industries for shipbuilding.) Additionally, it was made clear that Munitions must accept withdrawal of men fit for military service.[7]

It was to be April before the overall review of Service and war production programmes was available to the War Cabinet for approval. But the War Cabinet had done more than endorse the War Commitments Committee view; it had adopted that view firmly as its own. The Cabinet repeatedly complained of the delay, and called for results. Above all, in

[6] There is an air of shadow-sparring about some of these figures. Estimates of "deficiency" must, in any case, have been rough and have involved precarious assumptions about availability of machine tools, etc., without which even had the labour been available the Department's ability to use it would have been doubtful. No doubt more went to produce these particular figures than a formula of "say 50,000, two-thirds (33,000) men and one-third (17,000) women" but there could, in the nature of the case, have been little more than rough judgment behind the totals however much elaboration in detail was presented. Munitions, of course, was not alone in seeing the figures presented to the Committee at this stage as bargaining counters.

[7] It is worth noting that Jensen immediately after this War Commitments Committee meeting circularised the managers of all government factories telling them that there was no alternative to the release of men to the Services, and that they should take the initiative in arranging with their Area Military Officers for release of such men and in training older men and women to replace them.

the Cabinet, in the War Commitments Committee, and in the departments themselves there was at last awareness and acceptance of the compelling need to scale down over-ambitious programmes. The Services, Munitions and Aircraft Production might manoeuvre hopefully to minimise the degree to which each might have to accept curtailment, but the manoeuvres were within limits set by that awareness and acceptance. The January 1943 policy directives could not overnight be translated into revised specific programmes, and revised programmes could not, in the nature of the case, mean an immediate downturn in munitions production and employment. But in a very real sense January 1943 was a basic turning point in the munitions story.

CHAPTER 4

PROBLEMS OF DOMESTIC SUPPLY

CONTROLS

CURTIN's public statements in the days following the Japanese attack implied extensive direct controls over industry. Had public attention not been absorbed by the unfolding tale of military disaster, action publicly taken in December and January might have appeared an anti-climax. Superficially, imposition of controls such as those over toothbrush handles or cordage cotton could have seemed trivial instalments of the heroic self-denial foreshadowed by Curtin.

But the impression, where it existed, was a false one. Drastic regimentation of industry could not be planned and implemented overnight. There were not wanting preparations, but quite rightly immediate attention was concentrated upon immediate needs. In the government departments preparations were in train for restrictions and controls which were to come later. But it was not yet time for the kind of restriction which the Department of War Organisation of Industry urged on the Production Executive on 13th December 1941. The Minister pointed out that rationalisation took time, and that, immediately, labour and materials could be released by the simple if Procrustean step of prohibiting sale and production of certain luxury goods directly competitive with war production—domestic electrical appliances, motor vehicles, various rubber articles and others made of iron and steel were put forward. But the fact that much of the submission was devoted to ways of carrying disemployed labour over the interval before it was absorbed in war production pointed to the reason why the proposal was, with justice, considered premature. Prohibitions of production were presently to be used, but at a time when, only a few weeks later, rapid absorption of labour made unemployment provisions unnecessary.

For the moment more pressing problems must take precedence. War in the Pacific shut off, or endangered, supplies which had until now come from China, Malaya, the Netherlands East Indies, or even Japan itself. Some of these were items (as a minor example, toothbrush handles from Japan) for which a sharp increase in demand for newly called-up men in camp followed the loss of oversea supply.

The urgent supply problems of the first two or three months of Pacific war presented themselves therefore as demanding *ad hoc* procedures to conserve what was still available and direct it to the most immediate essential purposes, procedures which involved direct action, a spreading network of controls to replace the more leisurely reliance predominantly on market procedures which had characterised the first two years of war. Direct intervention in market processes there had been, and on a not insignificant scale. But war with Japan produced, not quite overnight, a readiness on the part of Ministers to approve, and private enterprise and the public to accept as necessary, a stream of compulsions, prohibi-

tions and restrictions which would have been unthinkable even late in 1941. It was in this atmosphere of a new-found readiness to use and willingness to acquiesce in direct action to secure supplies and direct their use, that the Department of Supply,[1] along with other departments, found itself meeting the massive demands of 1942.

It would be impracticable to trace all the multifarious controls (many of which are in any case recorded in other contexts), but some general picture of their early evolution and general nature is desirable before looking more closely at the response of the Department of Supply to the new demands on it to meet the rapidly expanding needs of the Services for other than munitions, and to meet those demands in ways and to a degree that recognised responsibility for some acceptable level of supply to civilians.

Any grouping of the controls over production and distribution which spread so rapidly from December 1941 can have only expository justification. The departmental origin of control frequently had no special significance. Thus rubber use was restricted by the Department of Supply (although the Department of War Organisation of Industry restricted some uses of rubber as in women's corsets); parallel controls over, say, timber or industrial chemicals came from the Department of Munitions. Zoning of retail deliveries started with the Liquid Fuel Control Board, passed to the Department of Transport and ended with the Department of War Organisation of Industry. A number of controls originated with the Department of War Organisation of Industry and were administered, sometimes from the beginning, by other departments.

The legal form of control—by regulation, order, or less formal procedure—frequently had no special significance. Again, non-essential activities might be simply prohibited; or licences and permits might be required for some types of production, and not approved for non-essential classes; or there might be positive directions for essential use of materials, implying a blanket prohibition on all other uses; or indirect means might be used, as requiring clothing coupons for articles which few people would sacrifice coupons to obtain. Which form was used could be a matter of convenience in administration, or ease in formulating the legal foundation of control, or even mere habit in procedure.

More illuminating is a grouping according to the source of the decision to impose control, that is according to the purpose which the control was intended to serve. But any such grouping would disintegrate if interpreted pedantically. At the beginning of 1942 the Australian economy was a fully-employed one and all the controls were in one form or another designed to shift resources according to changing scales of priority from less to more essential uses. "Purposes" of controls were therefore particular expressions of this general purpose. A control might be introduced for more than one specific purpose, in this narrower sense; the purpose might change over time. The fact that a control already existed over a raw

[1] The Department was Department of Supply and Development until October 1942 when it became Department of Supply and Shipping. For ease of reading the abbreviated form will be used.

material might lead to its being used for a purpose which could equally well be achieved by a quite different form of control over a finished product.

Subject to these comments, the controls imposed from December 1941 to March 1942 might be grouped roughly thus:

(a) those designed to secure absolute priority for an urgent war use. Such are first timber orders; toothbrush handles; bitumen; requisitioning of binoculars; hand tools; motor spare parts.

(b) those aimed at restricting the less essential uses of key materials equipment, manpower, or, as a means of achieving this end, restricting consumption. These differ from the first type mainly in degree, and a number of controls which in December would fall into the first became examples of the second group. As the immediate urgency passed it was possible to provide systematically for essential civil uses. The plainest example would be the Essential Materials Order with its specifications of limited amounts of key materials available for uses of low priority. But the same essential point is involved in the system of permits to buy certain types of goods; in transport restrictions; in sugar and meat rationing.

(c) those aimed at a more general target, of restricting non-essential and low priority uses of *any* materials or equipment or labour. Class (b) could be regarded as a special sub-group of class (c). The classic example would be the Prohibition of Non-essential Production Order No. 1; but the purpose lies behind most of the Department of War Organisation of Industry's rationalisation programme.

(d) those designed to ensure that resources left to the civilian sector were used efficiently, and served uses of higher priority. The Department of War Organisation of Industry's rationalisation became this. So too did a number of controls that initially were of types (a) or (b), for example, hand tools, leather, and most of the Department of Supply's controls.

(e) those aimed at fair sharing of a limited supply. Clothes rationing is the type case. Many controls tended to acquire such purposes, although in principle fair shares and priority for essential users were distinct principles.

None of these groups is watertight. Probably the majority of controls would fall into two or three of these groups simultaneously or successively. But the grouping does correspond roughly to differences of emphasis at the time of introduction of the several controls. Moreover, in the order set out, the grouping does march broadly with the chronological evolution of controls. In December 1941 immediate war use must take priority over everything else, however "essential" that might be in a longer period. By January and February 1942 emphasis had shifted to class (b) and from that to class (c). While the initial stages of classes (d) and (e) may have had their origin in this early period, their effective introduction is later—March to August and after. This evolution corresponded not merely to the changing nature of the problems demanding solution. In part the development represents increasing experience and efficiency in operating controls; in part it is the phenomenon of the snowball.

A roughly chronological summary of some of the formal controls

instituted in December 1941 is the clearest way of demonstrating what were the immediate problems of supply. On 13th December control was imposed on the use of tinplate, which had obvious connections with the increased need to supply food for men in camp, and the new precariousness of supply of an imported material. Broadly, civilian uses of tinplate required the Department of Supply's approval, except for production of food containers of specified large sizes.

A similar order three days later covered certain softwoods grown in Victoria and South Australia, for the use of which the Department of Munitions' consent was required unless the timber was used for packing munitions or explosives, or in fulfilling a government contract. A little later provision was made for Commonwealth priority in the use of coachwood, employed in rifle furniture. The Japanese threat to supplies of jute from India, and to shipping generally, was reflected in an order directing that hemp, jute, flax and similar fibres should be used or sold only in filling a Commonwealth contract or for a specific purpose for which approval was obtained. Urgent footwear needs for the expanding Services brought an order (on 20th December) restricting the use of (Cuttan) bootnails and bootnailing machinery to the production of boots for the defence forces.

War in Malaya threatened petrol supplies from the Netherlands East Indies and created new needs for service storage in drums. Accordingly liquid fuel control was tightened by making the use of power and lighting kerosene and other liquids subject to consent if the vehicle concerned was not a tractor. Holders of 24- and 44-gallon drums were instructed to empty and return them, an order[2] which, since it was addressed primarily to farmers and country residents, embodied elaborate provisions to make its operation reasonable, provisions which made evasion by the uncooperative easy.

The same day saw another development of importance: the institution of control over rubber by the Department of Supply. It was provided that car or cycle tyres should not be manufactured except for government use, or for a purpose approved by the Department of Supply, and that monthly sales of such tyres were to be reduced by half (based on sales from September to November 1941). Sales of truck tyres were to be reduced by a quarter, and all stocks of tyres held by dealers "on consignment" were to be returned to the supplier; car users were somewhat optimistically forbidden to buy tyres except for immediate use. Production and sale of garden hose, rubber mats and flooring, tennis and golf balls were restricted either in quantity or according to destination.[3]

The source of this restriction was obvious: the major natural rubber areas of the world were being occupied by the Japanese. The control had to be tightened and made more explicit in January, and was at the same time considerably extended, especially to prevent or restrict the use of

[2] 23 Dec 1941.

[3] This restriction embodied one of the Department of War Organisation of Industry's prohibition proposals of 13 Dec 1941, but was more comprehensive.

rubber for sporting goods.[4] Over succeeding months further restrictions followed; in March installation of new plant for rubber manufacture was prohibited.[5]

Rubber control was followed by a number of orders providing for absolute priority for defence needs. Binoculars (optical glass was not yet produced in Australia)[6] were requisitioned. Toothbrush handles and bristles (formerly imported especially from China) were to be sold only for Commonwealth or specially approved purpose.[7] Procuring of raw silk for other than Commonwealth purposes was severely curtailed, an order which was evaded so that three months later (30th March 1942) manufacturers were forbidden to open a bale of unprocessed silk except to fill a Commonwealth order.

At the end of December 1941 bitumen, required for airfields, camp roads, and other defence work, required a permit for its sale. So, too, did the sale of a wide range of hand tools used by carpenters, plumbers, electricians, watchmakers, and motor mechanics—that is, tools required for new camps and for servicing defence vehicles.[8] The retail sale of specified drugs was restricted to the filling of prescriptions and sales to medical practitioners and hospitals. Motor vehicle spare parts came under control (12th January 1942) but administrative convenience dictated that it should take the form of prohibiting sellers (other than retailers) from disposing of more than one quarter of their stocks except for Commonwealth use, with overriding priority in all cases for government orders.[9] This order, like the others so far described, was dictated by the immediate need to ensure that demands of the Services were satisfied irrespective of other competing demands. It made no provision for civilian distribution of parts according to a scale of priority nor for ensuring that supplies for the civilian market were adequate. In the mood of December and January such refinements in control must be deferred until the immediate military urgency was met; in time it was to be necessary for the Department of Munitions itself to undertake manufacture of spare parts for civilian vehicles.

More generally, while it was reasonable in December to concentrate on ensuring Service supplies, over a longer period controls must be more sophisticated. Already in December 1941 the Department of Munitions had put forward proposals for graded restrictions on the use of key materials, principally iron and steel, copper and copper alloys, and a number of industrial chemicals.[1] But Production Executive was unwilling to take the responsibility, and passed the problem to the Full Cabinet, so that approval was delayed and the consequential essential materials

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[4] Control of Rubber Order No. 3, 24 Jan.

[5] Order No. 4, 31 Mar.

[6] See Mellor, *The Role of Science and Industry*.

[7] Nylon bristles, available in small quantities, were then unacceptable to the Services. Completed toothbrushes were, of course, scattered in thousands of small retailers' stocks, and control was aimed at the point where basic materials passed to the final stage of manufacture.

[8] Hand Tools Order, 31 Dec.

[9] Similar control was extended to motor cycle parts on 19 Feb.

[1] Production Executive Agendum 9/1941.

order did not appear until 20th February.[2] Its main provisions were important in themselves. For a long list of non-essential uses the materials could not be used at all, uses ranging from novelties made of wire to domestic hotwater services, from dress ornaments to plastic toilet seats. For many other uses a manufacturer might use varying proportions (25, 50, 75 per cent) of the amount consumed in a prescribed base year. But the order had a wider significance than its specific restrictions. Until now departments, including the Materials Supply Directorate in the Department of Munitions, had preferred less formal methods. Persuasion, pressure, discreet "blackmail" had been effective when supplies were less acutely short and the need less urgent; in particular it was practicable to ignore the activities of large numbers of small users. But now control must be comprehensive, and the formal public order to all must replace the friendly telephone call to a few. Legal enforceability required precision, but precision could mean rigidity; it could also be exploited, for instance by the ingenuity of the industrial chemist. Hence the order provided that consent might be given for a prohibited use; the "base year" in any case was that specified by the Director of Materials Supply in the Department of Munitions; the same authority might vary the order at any time in application to any particular supplier, use, or material. In short, ingenious drafting had provided a precise enforceable order which meant what it said if evasion was attempted, but otherwise the terms of the order could be adjusted at any time at the discretion of the Materials Supply Directorate.

These features of this particular order recurred again and again in later controls. Formal legal control was not adopted when, at some stage in the production chain, there were a few large firms whose co-operation could be ensured by negotiation. It was unnecessary, for example, to control retailers if agreed restrictions could be imposed at the point where materials were supplied to a manufacturer, unless it were desired to ensure "fair" distribution at the retail stage. Hence the date of a formal order or regulation can be misleading; normally some informal control and direction was already being exercised.[3] More important, at no time was the area and degree of control necessarily represented by the formal terms of an order. Motives for co-operation by firms with departments might vary: genuine willingness to do what the department found necessary; desire to retain goodwill because the department could facilitate or impede availability of materials, or labour, or might discipline the uncooperative by its distribution of contracts; fear that resistance might provoke formal control —whatever the explanation it was normal, when a few large firms were concerned, for control to be both effective and informal without legal sanction.

When, however, a large number of firms was concerned restrictions on non-essential uses of resources could not be effectively implemented without both the legal power to discipline the uncooperative and the

[2] Some of this delay derived from drafting difficulties, the legal draftsman seeking precision while the officers of the Materials Supply Directorate wanted legal enforceability combined with elasticity.

[3] See Butlin, *War Economy 1939-1942*, pp. 450, 462-3.

BLOCKING THE ROAD



Wells in Herald (*Melbourne*), *24 Feb 1942.*

publicity and precision needed in addressing a number of scattered firms many of whom might be unknown to the department concerned.

Orders of this general type, that is aimed primarily at restricting non-essential uses, multiplied in the months that followed and, in general, became more sweeping. One consequence of their comprehensive form was the disposition of administrators to adopt increasingly the "permit" form, that is to prohibit in very general terms unless a permit were obtained, at which point it was possible to exercise discretion in the light of particular circumstances.

Thus, for instance, two rather cautious orders relating to paper, issued in December 1941, limited sizes of betting tickets and charts, and prohibited the use of paper mounts in the selling of clothing. But February 1942 saw attack in more sweeping terms on more important forms of consumption. Use of paper in packing goods for wholesale trade was limited, and totally prohibited in retail selling unless necessary to protect the goods. Consumption of newsprint was further curtailed,[4] while in March the use of paper to print a book, newspaper, poster, pamphlet or map required specific consent.

A minor control imposed early in December 1941 over certain types of cleaning materials was a good example of controls, soon to multiply, efficiency of which depended on the victim. The order directed that cotton waste and similar materials should not be bought unless the buyer held less than one month's needs and then only in amounts of up to a fortnight's usage. Sellers were supposed to enforce this rule by requiring a written declaration from the buyer. As with other orders of this period, a deliberate evader would have suffered little but minor inconvenience; in the atmosphere of December 1941 and several months after, such orders did achieve their real purpose which was not rigid enforcement but a clear statement of what was expected, a kind of official code whose sanction was informal.

The controls so far summarised had their origin in specific difficulties —interrupted supplies, shortages of particular materials, and so forth. But the demands of 1942 meant that everything (above all, labour) was in short supply and emphasis shifted to a general attack on non-essential activities, as a means of releasing labour and other resources, not because this or that material or skill had an immediately identifiable war use, but because everything was needed; what was relevant was the degree to which a non-war activity could be regarded as unnecessary, not the urgency of the war need for the specific resources involved.

Following the separation of the Department of Munitions from the Department of Supply and Development in June 1940, the latter had as its central responsibility the supply of non-munitions items for the Services, such as clothing, foodstuffs, flax, jute, general stores, petroleum products.

[4] Paper Order No. 16, 24 Feb. 1942. Cuts ranged from *nil* for dailies up to 24 pages per *week* to 16 2/3 per cent for those of 24 to 36 pages and 60 per cent for those over 132 pages. These cuts included those previously made, and the percentages referred to consumption in 1939-1940.

But since Service demands for these were directly competitive with civilian requirements, the Department had to concern itself with the total production picture and with the broad allocation of available supplies between Services and civilian markets.[5]

Already, as Pacific war intensified supply problems, the Department was a sprawling loosely-articulated one, with various boards attached to it and as 1942 wore on the units of the organisation were to be multiplied and the reach of its tentacles extended. Through a central Contract Board and District Contract Boards it pursued its procurement function of meeting all requirements of Allied forces for non-munitions items from Australian sources (except from 1943 for foodstuffs). Through various procurement divisions it exercised great power over the structure and operation of a wide variety of industries, a power supplemented by a number of specific legal controls. Among its major areas of control were the production and distribution of coal, the import, distribution and sale of liquid fuels and petroleum products, the import and use of tinplate and jute, production of flax and production of minerals for war purposes.

There was also a wide range of lesser commodity controls, a number of which originated with other departments but which were administered by Supply because it was already heavily involved in procurement of the commodities concerned. A number of measures to simplify design or reduce varieties or in other ways rationalise production, initiated by War Organisation of Industry, fell into this class. There were controls over leather and footwear, rubber, canvasware, automotive spare parts, typewriters and office machines and so forth, even a permit-to-buy system for alarm clocks.[6]

THE ALLIED SUPPLY COUNCIL AND LEND-LEASE

With the arrival of the first American forces and in the face of the evident intention of the United States Army and Navy and the Lend-Lease Administration each to establish its own organisation, an Administrative Planning Committee was established, made up of representatives of the three Australian Services, and of the United States Army with J. P. Abbott,[7] as chairman. Its function was initially seen as ensuring that American needs were satisfied promptly; it was made directly responsible to the Prime Minister; and it was contemplated that it would work through existing departments which would be represented on various sub-committees. One by one these faded away over the next four months, as

[5] Tracing the multifarious activities of Supply and of organisations associated with it is badly handicapped by a series of great destructions of its records, carried out without prior archival scrutiny and with the merest gesture to the role of the Archives Office. Very large quantities of records were destroyed by 1954 and further extensive destruction occurred in 1956-58. An Archives survey in 1965 concluded that of the main source, the "general correspondence", less than one per cent of pre-1946 material remained.

[6] In October 1942, as recorded in Chapter 9, the Department took over responsibility for shipping and was renamed Department of Supply and Shipping. Only its supply functions are discussed in the present chapter.

[7] Hon J. P. Abbott, M.C. (1st AIF and Capt RFA), MHR 1940-49; Min for Home Security 1941. B. North Sydney, 18 Oct 1891. Died 7 May 1965.

the major functions were taken over by special agencies (notably the Allied Works Council) and at the end of April the Committee declared itself redundant.

While one of its sub-committees had been nominated to deal with supplies, all matters falling within the sphere of operations of the Department of Supply had been excluded from the functions of the Administrative Planning Committee. The excluded area was to become the territory of an Allied Supply Council, originally consisting of the Secretary, Department of Supply; Director, Division of Import Procurement; and an American representative.[8] But its functions were defined widely, on the one hand appearing to give it such authority to "deal with broad supply problems" as to trespass deeply on the role of Production Executive, and on the other, by speaking of "prompt and definitive action to be taken without waiting for it to go through routine channels" as to subordinate departments to it.

Most concerned were Dedman and his Department of War Organisation of Industry, since he was chairman of Production Executive and his Department supplied its secretariat, and as well, on paper, had wide functions in "co-ordinating" the implementation of economic policies. Efforts by Curtin to restore harmony by "guide rules" for the Council's operation were nullified by the evident intention of J. A. Beasley,[9] Minister for Supply and Development to hold to the main substance of the original scope of the Council. Time was consumed in debate in inter-departmental committees and Cabinet before a much modified Allied Supply Council was operative, and the original body meanwhile was effective only in a desultory *ad hoc* way.[1]

As it finally emerged,[2] the Council was one of Ministers: Supply and Development (chairman), Trade and Customs, Munitions, War Organisation of Industry, together with a representative of the United States government (deputy chairman). Below the Council was an Allied Supply Standing Committee consisting of "the executive officers of the departments primarily concerned with the procurement and production of war supplies" and representatives of the Commander-in-Chief (General MacArthur) and of the Lend-Lease Mission. Proposals to include New Zealand were met by having the New Zealand Trade Commissioner as a non-voting participant in the Council and a New Zealand observer at Standing Committee meetings. The civilian departments represented on the Standing Committee were: Supply, Munitions, Aircraft Production, War Organisation of

[8] War Cabinet Minutes 1693, 13 Jan and 1778, 27 Jan 1942. See Hasluck, *The Government and the People, 1942-1945*, pp. 237-8 and Appendix 8.

[9] Rt Hon J. A. Beasley. MHR 1928-46; Asst Min for Industry and Ext Affairs 1929-31; Min for Supply and Shipping 1941-45; Defence Jul-Dec 1945. High Commr for Aust in UK 1946-49. B. Werribee, Vic, 9 Nov 1895. Died 2 Sep 1949.

[1] As a sample of the exchanges: Dedman to Beasley, 26 Mar 1942, which made the relatively mild proposal that the Council should include a Department of War Organisation of Industry representative; Beasley's reply of 30 Mar brushing this aside promising only contact "if necessary". Jensen of Munitions was active and influential in the devising of the final definition of the constitution and role of the Council.

[2] War Cabinet Minute 2131, 5 May 1942.

Industry, Division of Import Procurement (Trade and Customs) and the Treasury.[3]

The role of the Council was now defined clearly by War Cabinet:

> The Council is to be primarily a co-ordinating, planning and advisory body. It will not in any general sense be an executive agency and there will be no direct authority to require action on the part of any governmental agency, except that it can obtain the information and progress reports necessary to enable it to perform its functions. It is expected that the greater part of the functions of the Council will be accomplished through recommendations of action on the part of existing agencies . . . . Its methods and channels of operation should be simple and direct, functioning through existing agencies, and reporting directly to the Prime Minister and the Commander-in-Chief.

The non-executive, consultative and advisory role of the Council was elaborated in a detailed statement of functions, and a listing of departments not represented on Council which had a distinct part in the complete supply structure. The overall control of major areas of economic policy vested in Production Executive and the co-ordinating function of the Department of War Organisation of Industry were reaffirmed. The Council, in short, was to focus its attention on smoothing the process of relating the supplies and demands of the two Allies at points where they clearly met and was not to concern itself with the functioning of the Australian supply organisations except in relation to this central function. In its definitive form the Council met for the first time on 18th June 1942.

One of the earliest tasks of the Council and its Standing Committee was meeting a request from the United States in May 1942 for supply by 1st June of a co-ordinated programme of munitions and other goods expected to be sought from the United States up to the end of 1943. The information sought covered estimated requirements, stocks, domestic consumption, exports, usage by quarters, source of imports, and justification of end use. Already, before the Council took final shape, agreement had been reached on new procurement procedures, in which the central features were that Australian requisitions for munitions and other supplies from the United States would be subject to American scrutiny before despatch, and that United States authorities would be informed of any supplies sought by Australia from Britain.[4] Requisitions by Australian forces were to conform to plans approved by General MacArthur, and to be directed to London in the case of Navy and Army supplies, since these Services used British-type equipment, and generally to Washington for Air Force needs. Other supplies, of civilian goods, materials, machine tools etc., to be sought in the United States, were similarly to be approved in the name of the Commander-in-Chief after endorsement by the Lend-Lease Mission. These arrangements gave greater importance to the Division of Import Procurement which was responsible for collating requirements for these "general

[3] Treasury primarily in respect to Lend-Lease. The reduced role of Supply in the revised scheme is measured by the fact that it was now only an equal member of the Standing Committee; the Committee's chairman was specially appointed and the secretary of both Council and Committee was the Munitions delegate to the Eastern Group Supply Council, recalled for the purpose.

[4] Procedures set out in long cable 21 May 1942, endorsed by Prime Minister, Commander-in-Chief S.W.P.A., and United States Lend-Lease Mission in Australia.

goods". They also made Australia somewhat wary of membership of the Commonwealth Supply Council, formed in London in August 1942 (S. M. Bruce became Australian representative). It seemed to some Australian officials that requisitions already screened by the Americans would be subject to a second scrutiny. But it turned out that the principal function of the Commonwealth Supply Council was collating information on supplies available from Commonwealth countries and that in practice its scrutiny of Australian demands on those supplies was done by adopting the judgments of the Lend-Lease Mission in Australia.

Another area in which the Allied Supply Council was the channel for review of commitments concerned the Eastern Group Supply Council.[5] After Japan entered the war, Australia had accepted large E.G.S.C. orders for munitions and other goods, especially clothing. Diversion of shipping and the new hazards of Japanese submarine and air attack on shipping routes to India meant that large stocks accumulated in Australia. After complicated negotiations with the Australian armed services and United States forces in Australia, and with the procurement agencies of other British Commonwealth countries, large quantities of these stocks were diverted to use in Australia. (Black boots intended for the Indian army, for instance, were disposed of as civilian work boots.) Further E.G.S.C. orders were only accepted if they did not prejudice supplying needs in Australia. Thus when the E.G.S.C. forwarded a list for its 1943 programme totalling over 12,000 non-munitions items, Australia indicated that it could consider only 450 of them, mostly clothing. Clothing, it was believed, could be supplied in limited quantities because Australian Service demands were expected to decline in the first half of 1943—and there was the consideration of self-interest: that Australia was totally dependent on India for goods such as jute.

Similar conditions applied to munitions orders for E.G.S.C., with the additional complication that as stocks produced for E.G.S.C. were diverted to the Australian army, Munitions replaced them, and the Army again requisitioned against the stocks, apparently regarding E.G.S.C. orders as a special reserve. Restraint was imposed by requiring that future Army inroads on these stocks should require special approval and consultation with E.G.S.C.

The nature of the Allied Supply Council's operation during 1942 and the early months of 1943 can be seen from its handling of a number of important commodities. It is not easy in many cases to assess how far the Council's part was decisive in securing action, and how far it was, substantially, endorsing action already effectively decided upon. Where

[5] The Eastern Group Supply Council was, at least in form, established by a conference in Delhi in Oct 1940, of the United Kingdom, India, Australia, New Zealand, South Africa, Rhodesia, East Africa, Malaya, Hong Kong. Its purpose was to provide a mechanism for matching production of member countries to wartime demands from other member countries, a procedure to be carried out by a joint Central Provision Office of the Council. But it was not until July 1941 that that office began to function and not until a year later that the Council was operating effectively, and by that time the development of the Pacific war, the participation of the United States as an active belligerent, and in particular the creation of the various Combined Boards had greatly reduced the significance of the Council. See Butlin, *War Economy 1939-1942*.

Lend-Lease transactions were involved, the Council's sponsorship of requisitions and especially its endorsement of quantities were clearly of great weight in the outcome. Sometimes it operated, as it were, in reverse: the Lend-Lease Administration in Australia used the machinery of the Council to press its view that expanded production in Australia should make unnecessary or reduce Lend-Lease requisitions. In all cases Council consideration of a commodity required that the authorities most directly concerned with production or use had to produce factual information, to think about the current situation, and present a considered case for the view they took, and to do so in the knowledge that what they supplied to the Council would be scrutinised by other departments. Apart from what discussion and action there might be in and through the Council's machinery, therefore, there was a pervasive effect not necessarily reflected in Council records in promoting the pooling of information and of views.

Thus bitumen, entirely imported (mainly from Trinidad) was required from early 1942 in large quantities for aerodrome runways and road surfacing. A Council sub-committee reviewed the estimated requirements, the use so far as possible of alternatives such as tar, changes in construction to reduce bitumen usage. It accepted arguments that for much of the essential work, such as runways, the use of concrete involved more time, machinery and labour, and large quantities of water (a matter of moment in dry inland areas). It concluded by endorsing requisitions for import of bitumen of 28,000 tons in the second half of 1942 (in addition to 10,000 tons being obtained directly by United States forces in Australia) and two further six-monthly requisitions for 17,500 and 30,500 tons. These amounts, in the event, proved more than adequate because of the favourable turn of the war and changed operational needs.

Tobacco raised questions of a different kind brought into focus by inquiries submitted to the Council by the Lend-Lease Administration, which wanted to know if cigarettes and tobacco were regarded as needed as much for civilian morale as for supply to the troops; whether consumption could not be restricted; would tobacco shipments displace war supplies; and was it really necessary to secure 1943 needs in the second half of 1942. The Council signalled its appreciation of these questions by referring the problem to a sub-committee of three, the United States member of the Council, the Head of the Lend-Lease Mission and the Director of the Division of Import Procurement, presumably the most neutral of the Australian authorities involved in the problem. The Council's conclusions continued the critical note. It pointed out that machinery existed to prevent tobacco taking cargo space from war supplies; agreed that tobacco was a contribution to civilian morale since most of the population was in coastal areas still open to enemy attack; and proposed that imports for both civilian and military consumption be set at 21,700,000 pounds during the year July 1942 to June 1943. But it went on to suggest that these supplies be distributed, up to an approved maximum, as replacements of stocks as used (thus leaving the way open for restriction of consumption); that stockpiling be permitted but progressive shipments

should depend upon available space and the existence of these stocks. In Washington it was inferred that further restriction was reasonable and the amount allocated was reduced to 18,000,000 pounds; in April 1943 Washington went further by declaring that future allocations under Lend-Lease would be for the armed forces only.

A similar scaling-down of Lend-Lease requisitions was mediated through the Council in the case of tinplate, then not produced in Australia but sought in large quantities particularly for food canning and packing. The Americans demurred at the Australian requisition in June 1942 for import of 154,000 tons in the next twelve months, partly but not entirely because of shipping space needed. Again a sub-committee was charged with investigating whether reductions could be achieved, the Council clearly indicating its view by appointing two Americans and the executive officer of the Tinplate Board. Not surprisingly it recommended that the allocation be reduced to 121,000 tons and that for the remainder of 1942 the demand on shipping space be reduced by deferring the major part of this to 1943; in January the Council accepted a recommendation from the same sub-committee for a further cut in the year's allocation to 105,000 tons. Formally the Council could only express conclusions or endorse recommendations but in cases such as this the distinction between that and making a decision was formal. The case illustrated how the functioning of the Council turned the spotlight on specific problems and required Australian authorities, each concerned with its own special area, to reassess their plans and claims in the light of considerations that went beyond that area.

It was a procedure unwelcome to many because of the key role and influence it accorded to the Lend-Lease Mission in Australia and to the United States Forces representative in any case where Lend-Lease or other supply from America was in question. In particular it was claimed, with some justification, that it permitted the Americans, in the guise of considering the need for imports from the United States, to exert a strong influence on Australia's domestic production plans. Whether that influence was undue is a moot point. What is clear is that Lend-Lease Administration in assessing demands from Australia could not avoid forming conclusions as to how far the alternative of production in Australia was practicable and preferable, and those conclusions, in the circumstances of 1942 and a good deal of 1943, could not avoid a judgment as to whether production in Australia of items sought under Lend-Lease should not be preferred at the cost of curtailing some other form of production. The Council's machinery and procedures ensured that these issues should be raised openly and discussed in circumstances where the attitudes and assessments of the Lend-Lease Mission could themselves be subjected to discussion and argument. In that sense the Council probably lessened inevitable American influence and pressure on domestic policies and programmes. At times the Americans could become in this respect the welcome allies of Australian authorities seeking to curb the over-ambitious programmes of, for instance, Munitions.

A good example arose in June 1942 with the need for locomotives and rolling stock for railways, especially for the narrow gauge tracks of Queensland which were coping precariously with heavy traffic of direct operational importance. The Lend-Lease Mission questioned requisitions for import of substantial quantities, and took the view that much could and should be produced in Australia. Transport authorities, aware that in any case imports from the United States would be long delayed, welcomed this view; several ministers and departments such as Manpower and War Organisation of Industry saw such production as of higher priority than a number of the wide-ranging projects of Munitions, such as the tank programme. The outcome, endorsed by the Council in August, was decision for production in Australia of most of what was sought, as a responsibility of Munitions, which was directed that the railway programme was to have equal priority with munitions production.[6] A large part of the Lend-Lease requisitions was cancelled.

Not all matters considered by the Council concerned imports from the United States. In August 1942, for instance, it reviewed problems of coastal shipping and gave its support to the growing pressure for a single department to replace a multiplicity of authorities, an objective realised in October by transferring all control and supervision of shipping activities to a directorate of shipping within a (renamed) Department of Supply and Shipping. When early in 1943 the Director-General of Allied Works, concerned as he was with the acute shortage of building materials, proposed that allocation of such supplies be made available to the armed services and the Allied Works Council should be controlled by the latter body, Council rejected this and through a sub-committee reviewed the supplies and demands in detail, leading to detailed adjustments, approved by Council, in allocation of supplies and construction programmes, followed by directions as to future procedure designed to enable the Director of Materials Supply in Munitions to improve allocation in the future. The Council reserved to itself review of disagreements between the Director and the various authorities. Timber was a specially important case of such materials and moves by the Lend-Lease Mission questioning requisitions for import led to a similar survey, which concluded that expansion of local production, use of substitutes and the like could contribute little; the end result was endorsement of the need to import 40,000,000 super feet during 1943.

When the Department of Supply challenged in August 1942 the demands by the United States forces for coastal vessels and barges (both by way of removal from the already depleted numbers available for use in Australian waters, and for new construction) the Council among other things, secured decision that all demands for new construction should be handled by the Department of Munitions, through either the Shipbuilding Board or the Ordnance Production Directorate according to the type of craft.

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[6] The final decisions were by War Cabinet, 13 Nov 1942. See also Chapter 10, Land Transport.

Many other commodities came before Council: cotton and cotton textiles, motor vehicles, petroleum products, radio and signal supplies, machine tools, tractors, mobile cargo-handling equipment, clothing and footwear and others. All these were important in the sense that an item did not go to the Council unless there were serious problems of procurement, production, allocation of supplies, adjudication of competing demands, problems which could not be resolved within or between existing specialist administrative bodies. The Council had been explicitly debarred from making decisions which in any way involved or implied authority over any department or other agency, but its status and its methods of operation gave its "recommendations" or "endorsements" compelling weight. The results could include scaling-down of Lend-Lease requisitions or, equally, their reinforcement; revision of production programmes and of allocation of scarce supplies; or changes in administrative organisation, not always as large as the integrated control of shipping. There was a pervasive if immeasurable and informal effect in promoting more co-ordination between departments dealing with different aspects of the same supply problem, or between United States or Australian Services and civilian departments because once a matter reached the Council agenda, it was open to scrutiny at the highest level and the final result could pass out of the control of the department concerned. And in such circumstances there was a greater readiness to reach compromises and agreed solutions so that an issue was often resolved without even becoming a question for the Council. For matters which it formulated or endorsed as a recommendation the final formal decision might be that of War Cabinet, or the Prime Minister, one of the Combined Boards, or the Lend-Lease Administration in Washington, but in all but a few cases the Council's recommendation or endorsement became the final result.

PROCUREMENT

The procurement activities of the Department of Supply after the outbreak of war in the Pacific were enormously expanded, both in quantity and range. A simple summary of the scale of the Contract Board's business is a table of annual numbers of requisitions authorised and the contract value of the goods involved, which highlights the size of the 1942 peak.

	Number of Requisitions	Value (£ million)
1939 (July-December)	3,354	6.0
1940 (January-December)	13,398	40.0
1941	16,106	73.3
1942	25,419	142.3
1943	19,768	86.9
1944	11,618	34.1
1945	6,732	19.0

Despite the vast increase in 1942 in the demands for Australian and United States armed forces and other government authorities the main lines of procurement procedure established in the first two years of war

remained unchanged.[7] In particular the great bulk of contracts continued to be on a cost-plus basis despite the criticisms of a few months earlier. With the urgent pressures of 1942 these were, for the time, brushed aside or forgotten, to be revived later.[8]

But simple cost-plus contracts entailed a great deal of work in checking costs and to avoid being overwhelmed by this task as the volume and number of contracts grew rapidly in 1942 the Contract Board made increasing use of "industry prices" which came to apply to most orders for footwear, clothing, textiles and knitted goods. In principle an industry price was determined for standard articles to be mass-produced by estimating standard costs for materials, labour and overhead together with a profit margin per unit, varying between different goods. The objective of the costing division of the Department was, on the basis of investigation of a "representative" cross-section of the firms involved, to set a price which, it was believed, would give a reasonable overall return to 80 per cent of the firms concerned. These prices were adjusted from time to time in the light of general increases in cost, the most important being increases in award rates of pay, particularly in the clothing and textile industries in the case of women workers.

Such a procedure implied that not all firms would be able to make a "reasonable" profit, especially as the needs of war required that many firms should undertake unfamiliar work and provision was therefore made for such firms to seek a higher price for their particular contract, and there were many such claims, many of which were successful. In effect in these cases contracts became simple cost-plus ones, and it was these only which called for detailed checking of costs. On the other hand it was also implicit that some suppliers would make very good profits and towards these the attitude of the Contract Board was one of comfortable optimism. It professed to believe that only a few suppliers would make exceptional profits and took the view that it was proper for them to gain by special efficiency. If, nevertheless, profits were excessive the problem became one for Price Control and, beyond that, for the automatic reduction of net gain by the taxation system.

In practice too, there were many variations of standard cost-plus procedures. Thus in the case of motor vehicles imported in unassembled form by the government the chassis was delivered to the appropriate local company for the complete vehicle to be assembled, in return for the ascertained costs plus five per cent, but with the explicit exclusion from the calculation of the value of the chassis and other parts supplied by the government. Liquid fuel for emergency reserves after difficult negotiation was paid for at threepence a gallon less than fuel bought for current consumption, a differential which however the supplier was entitled to be paid if the fuel were in fact used. (Much of it was, late in the year, returned

[7] For the earlier period see Butlin, *War Economy 1939-1942*.

[8] Fuller discussion of contracts and later developments in the cost-plus issue will be found in Chapter 16.

to the companies.) And there were a large number of other special contracts.

Inevitably, given the massive increase in the procurement task of 1942 the Department moved deeper into involvement in actual production. At the beginning of the war much of the needed supply could be obtained by procedures which went little beyond those of peacetime. More active participation in inducing firms to undertake production, in supervising and in aiding it (by for instance assistance in obtaining labour or materials) had grown steadily. But of necessity such activities expanded rapidly in 1942 as it became necessary to procure goods not previously produced in Australia, or to have them produced in much increased quantities by firms not previously so engaged. "Controllers" and other officers concerned with procurement thus acquired multifarious activities which could range from merely seeking out possible sources of supply and inducing firms to undertake new activities to virtual direction of an industry, not necessarily with any formal authority.

Thus the Medical Equipment Control Committee, conceived originally as an expert advisory body, acquired autonomous powers to purchase drugs and equipment and promote their production. Its masterful chairman, Sir Alan Newton,[9] interpreted these duties broadly and acted as if he were fully responsible for such production, succeeding in large measure in operating in this role, even if with some friction with other departments.

In the field of rural production the Department initiated production programmes (until these were transferred to the Department of Commerce) which may be illustrated by that for vegetable production in 1942. To meet the large increase in Service demand (especially in the northern areas) growers had to be induced to transfer their activities to vegetables, and the basis adopted was the making of contracts between government and farmers under which they agreed to plant specified acreages of desired crops, the government undertaking to buy the output at a firm price. (Actual selection of growers, supervision of production and inspection of the final products were carried out through State Departments of Agriculture.)

Not only did the Department thus become more deeply involved in supervising and organising production of a widening range of commodities, but it also was forced, not always willingly, to accept more direct responsibility for the needs of the civilian population.

Some special groups were involved in this process and addition of such items as supplies to Pacific Islands or provisioning of merchant ships to the Department's responsibilities was merely a natural extension.

Provisioning of merchant ships, both from overseas and in the coastal trade, which until 1942 had continued mainly by peacetime trade arrangements, became another troublesome task for the Department of Supply, which on the one hand was expected to see that ships' providores were able

[9] Col Sir Alan Newton (Served 1st AIF). Consulting Surgeon AHQ 1940-42; Senior Hon Surgeon, Royal Melbourne Hospital; President Aust College of Surgeons. B. 30 Apr 1887. Died 4 Aug 1949.

to meet legitimate ships' demands, and on the other to restrain excessive or illegitimate use. This was particularly difficult since knowledge of the likely duration of a voyage was uncertain—often even a ship's master did not know his destination when he sailed. With overseas ships there seems to have been a certain amount of evasion of export controls by representing commodities as ships' stores, while the department suspected that some providores diverted to local markets goods made available as ships' stores.

Japanese advance in the Pacific disrupted supplies to a number of island territories associated with the United Kingdom, New Zealand, the United States, France and Australia itself and in the later months of 1942 there evolved arrangements by which Australia and New Zealand accepted responsibility for meeting the basic needs of these islands. In April 1943 War Cabinet gave formal approval for Supply taking responsibility for Australia's share in this task.[1] It was a complicated one, for the civilian supplies most needed in the islands were in short supply everywhere and communication with the islands was precarious and irregular. In money terms Australian supplies to these islands by 1942-43 were double the amount which had been supplied in ordinary peacetime trade in 1938-39.

Far more important, however, was the general shift in the Department's approach to civilian supply in Australia. Even in its primary concern with Service procurement it had had to recognise almost from the outset of war that essential civilian needs must be met, the leading example, perhaps, being petrol. But in 1942 virtually all the commodities handled by Supply were in a similar position, and at times, as with clothing, Supply was more actively concerned with ensuring adequate civilian supplies than with the Services. With goods subject to rationing it could take its lead from the Rationing Commission after that was established, on the principle that the quantities available whether imported or locally produced should be sufficient to meet the ration. But with others no such simple principle was available, and the Department became involved either on its own initiative or that of other departments (notably the rationalisation programmes of War Organisation of Industry) in the administration of a wide range of permits to be designed to distribute goods where most needed, in concentrating production of civilian goods on standardised utility lines, and various other controls of the kinds outlined in the early sections of this chapter.

A few of the controls especially associated with the Department may be taken as examples, both of modification of old-established controls, as over petroleum, or new ones arising out of abrupt reduction or disappearance of imports, from the need to direct production of civilian goods to the more basic goods and simplified types of them, or to control their distribution between classes of buyer and between geographical areas.

During the first half of 1942 control of importation and distribution of petroleum products continued on substantially the same lines as during 1941, despite the loss to the Japanese of Netherlands Indies supplies and

[1] War Cabinet Minute 2795, 30 Apr 1943.

the more precarious shipping position.[2] The most important change in methods of distribution came in August 1942 with the pooling of petroleum supplies and the incorporation of a special company, Pool Petroleum. The United Kingdom had set up an Overseas Supply Committee and the United States a Near East-Far East Committee, which collaborated in allocating the use of the tanker fleet and the distribution of available petroleum supplies between all Allied countries. Within Australia formally the separate operations of individual oil companies had continued unchanged on the basis of quotas and import licences given to each company.

The new pool was far from eliminating this situation. Individual companies continued to be the importers of the quotas allocated to them but distribution of the total supply became the function of the new company. Bulk storage tanks, road and rail tankers, petrol pumps and other equipment for distribution passed under the control of the pool, with arrangements for leasing or lending by the individual companies. The pool became the sole distributor, received sales proceeds and paid the companies in proportion to the quotas of petrol they had supplied. The whole arrangement took the form of an agreement between the companies, albeit under government pressure, and included detailed provision about companies' quotas in each State—in short it was designed to preserve the relative competitive position of the companies. With an industry with such complex political overtones and international ramifications this was no doubt the best that could be achieved, and indeed it was arguable that preservation of existing relative shares in the market was the equitable and efficient way to proceed. The scheme did mean considerable economies in the use of storage tanks, road and rail tankers; made easier the discharge of tankers at ports; and simplified other aspects of control and rationing since the Department of Supply had only one body to deal with instead of a number of companies, and could make decisions without becoming involved in difficult questions of relationships between the companies.[3] The arrangement was destined to continue throughout the war.

Prior to the war Australia's main supplies of cordage fibres, amounting in all for various types of fibre to about 17,000 tons a year, were imported. Three-quarters of this tonnage was made up of manilla and sisal from the Philippines and Netherlands East Indies, and the disappearance of these supplies made urgent the search for alternative sources of supply (including local production), the use of alternative fibres and control of end-use. Administratively the local spinning and weaving industry was susceptible to control because of the small number of firms; there were, for instance, only nine engaged in the cordage industry manufacturing threads, twines, cords, ropes, and cables and they were all members of a long-established

[2] The effect on consumer rationing and the development of alternative fuels such as producer gas are discussed in Chapter 11.

[3] The agreement was given legal sanction by the Petroleum Products Distribution Regulations (Statutory Rules 1942, No. 343, 1 Aug). These included a prohibition on any other person or company selling or distributing petroleum products in bulk.

trade association. It having become clear that they were not amenable to voluntary arrangements, formal control had been instituted in July 1941, so that the machinery was ready for the needs of 1942.

The principal alternative source of supply was East Africa, which became the major supplier of sisal, while local production of flax, already being developed, was the other main new source. In 1942 the United Kingdom Ministry of Supply contracted to buy the whole East African supply of sisal for five years; and the United States the output of hard cordage fibres from Mexico, Haiti and Brazil, the result being effective joint control of the whole supply available to the Allies, for allocation by the Combined Raw Materials Board.

The direction of manufacture and end-use administered by the cordage and fibre controller in the Department of Supply inevitably, therefore, followed closely the restrictions applied in the United Kingdom, U.S.A. and Canada, under the guide lines prescribed by the Combined Board. Thus the tiny supplies of manilla were restricted to use in connection with life boats; sisal lashings were available only for a limited range of uses; rope was available only for specified uses; binder twine was manufactured only in lighter weights. The Controller also became responsible for administering the rationalisation plans of the Department of War Organisation of Industry which, for example, reduced the number of different sewing cottons produced from 810 to 13, and the number of different qualities of rope from six to two. By the end of 1942 Supply could report to the Combined Board that of the total supplies of hard fibres 52½ per cent were going in various manufactured forms to the Services, and that civilian use, outside the merchant marine and primary production, received only 17½ per cent.

For practical purposes, during the first two years of war footwear and leather were a supply problem only so far as Service orders were concerned and the industry was virtually uncontrolled except by a loose supervising system and the use of persuasion and moral pressure. There were recurrent allegations of excessive prices and inferior quality. When these were reinforced by the increased demands and production problems of late 1941 and early 1942 a more potent form of control was required. The functions of supervising distribution of leather to manufacturers and the fulfilment of orders, which had been entrusted to a "directing authority" and an advisory committee all drawn from the industry, were given legal force by a control of leather order.[4] But the machinery was both inadequate and inappropriate for the rapidly developing problems, especially with the imminence of consumer rationing and the germination in the Department of War Organisation of Industry of plans to "rationalise" the industry.

Accordingly in July a distinct section to control leather and footwear supplies for both Service and civilian purposes was established within Supply with a Controller responsible for contracts for Service footwear and

[4] 27 Jan 1942.

INTRODUCING

Our New INSPECTOR



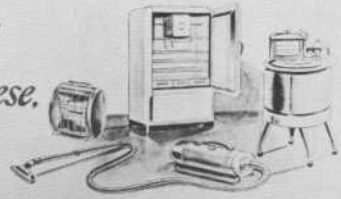
He's not going to make allowances or give any concessions if our jobs are not within tolerances.

A Jap, to be beaten by the arms and equipment we make, is the toughest inspector our jobs have to pass.

IF OUR WORK IS NOT GOOD ENOUGH SOMEONE WILL BE LET DOWN, BADLY!

KILL HIM WITH QUALITY!

Instead of these, we



are making these



War Organisation of Industry

W.O.I.

means War Output Increased

Bread Zoning released 1,514 carters

PLANNED BY W.O.I.

for Victory !



WAR ORGANISATION OF INDUSTRY

W.O.I.

means WAR OUTPUT INCREASED

supervising their execution.[5] This in itself was a large task—during the war years some 16,000,000 pairs of military footwear were produced by ninety firms, with correspondingly large production of repair materials—but in the conditions of 1942 it had to be carried out as part of a total production programme which included the far larger civilian needs.

The Rationing Commission, when it began, estimated civilian needs at just under 14,500,000 pairs a year,[6] provided those produced were durable (for example soled with prime bend leather) and were repairable at least twice. Attainment of these objectives was a central purpose of the Control of Footwear order of September 1942[7] which prohibited all decorative processes and styles, permitting only several utilitarian footwear styles with very substantial savings in use of labour. Compliance with this order and production to meet the quality (particularly the durability) desired were not to be secured until stringent control measures were introduced in March 1943. Each manufacturer was required to submit two samples of the footwear he proposed to make and two sets of component parts. If approved one of each was returned with an approval stamp and a registered number which had to appear on all goods produced; systematic inspection was designed to ensure that actual production conformed to the sample. The ultimate sanction was that an offending firm could be "deregistered" which meant that it risked loss of its allocation of leather and other materials and loss of its labour by the actions of the Manpower Directorate.

One other activity of the Controller deserves mention. War Organisation of Industry's efforts to minimise cross-traffic and reduce demands on transport were reinforced in the case of footwear by the co-operation of the Controller. Only one State, Victoria, produced more footwear than it consumed; at the other extreme was Tasmania producing barely 12 per cent of its own needs. Footwear produced in a State which could not meet its own needs in full could not be shipped outside that State while surplus production in Victoria could be directed to specific centres. Footwear was not the only industry to require firm control, but enough of its component firms were unwilling in its absence to conform to what was required of them, particularly quality standards, to make it a conspicuous example.

As was seen in discussion of the Allied Supply Council earlier in this chapter, tinplate, not produced in Australia, was of key importance for canning and foodpacking, and some other forms of containers. Increasing difficulties in supply and import had led to the establishment in June 1941 of a Tinplate Board to arrange for imports and to allocate supplies to manufacturers.[8] But control of the allocation of Lend-Lease material by

[5] The controller appointed was J. S. Rosevear, who held the position until July 1945.

[6] Arrived at by estimating needs per man of 1.8 pairs a year, women 2, and children and adolescents 3.

[7] Originating in War Organisation of Industry, the order was administered by the Leather and Footwear Control.

[8] See Butlin, *War Economy 1939-1942*.

a board on which representatives of users were a majority was not acceptable, and in August its status was defined as advisory, executive decision being vested in a controller in the Department of Supply.[9] The Board's membership was enlarged by the Curtin Government and in 1943 its functions extended to include supervision of the production of canned goods as well as the use of tinplate.

In operation from early 1942 (following the establishment of the Division of Import Procurement in September 1941 and of the Allied Supply Council in May 1942) the importing and distribution of tinplate began with the allocation (on an annual basis) of a quota for each Allied nation by the Combined Raw Materials Board in Washington; within the quota for Australia the Allied Supply Council made allocations to types of use; the Tinplate Board was responsible for preparing requisitions for particular types of tinplate and supervised the ultimate distribution.

In practice this meant restricting the use of tinplate to munitions production and to containers for a limited range of foodstuffs (with provision for other uses under permit). Production of small cans even for the approved foods was prohibited; the smallest permitted (for fish) was an 8-ounce tin; fruit required a minimum size of 16 ounces, jam 24 ounces.[1] The Department estimated that once control was fully effective (by the end of 1942), over 80 per cent of tinplate was used for direct war purposes, either in munitions or for packing food for the armed services (including American and British).

To the central function of Tinplate Control were added various associated responsibilities and it came to be involved in promoting the use of substitute containers, control of the import of terne-plate (used for small drums), technical advice to canners and food processers, sponsoring the import of can-making machinery and the like.

Mention was made earlier in this chapter of control over brushware being necessary late in 1941. This arose because of the cessation of normal supply from China, mainly Manchuria, of natural bristle then the only acceptable material available for shaving, tooth, paint and various other brushes including those for special industrial uses. The small and at times precarious supplies from China were bought by the United States, as also those from Russia and India, and the total allocated through the Combined Raw Materials Board on a government-to-government basis among Allied countries. In practice, Australia's share gave it about one-quarter of its normal pre-war usage so that the primary purpose of control was direction of the sparse supplies to what were regarded as first-priority uses, and development of substitutes.

Nylon was then a new material, only beginning to be used in such items as toothbrushes, and was not a major source of relief until late in the war. For a wide range of brushes the best available substitute for natural

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[9] Statutory Rules 1941, No. 210, 26 Aug.

[1] Control of Tinplate Order, 13 Dec 1941. There were a number of minor variations later reducing the list of foods to be canned or increasing the minimum sizes of containers.

bristle was horsehair, and reasonable supplies for this purpose were only attained in 1942 by prohibition of export, since skin merchants were accumulating stocks with the intention of export at substantially higher prices than those approved for the Australian market.

Beyond such measures relating to the use of natural bristle and the more important substitutes the Department of Supply relied on voluntary co-operation and a series of inducements and pressures in its supervision of the brushware industry. Thus a considerable degree of standardisation of products was achieved (three types of toothbrush in place of fifty-four for example). The Department set a priority schedule among classes of uses, set production targets for particular items, such as toothbrushes, quotas which manufacturers were expected to supply to various States prescribed. The extent to which these guide lines were followed was checked by asking for monthly returns.

"Voluntary" control worked tolerably well for a variety of reasons. Concentration of production on a few standard lines, for example, was not difficult to secure because such could be readily sold in a market short of supplies. In prescribing priority scales and setting production goals on State quotas, the Department had the means to reward the co-operative and penalise the recalcitrant. Its sponsorship was necessary for the import of plant and equipment with which a large expansion of local production was achieved; it controlled the allocation to manufacturers of imported raw materials.

A number of minor controls by Supply were designed primarily to secure redistribution of items of equipment already in use in Australia, not then produced here, of which overseas supply was unavailable. The simplest case concerned binoculars the entire Australian holding of which was made subject to requisition in December 1941. Owners supplied details and those of types suitable for the Services were then compulsorily purchased. Individual evasion was easy but owners of some 30,000 responded and 23,000 pairs of binoculars were in this way secured for the armed services.

In the case of typewriters and other office machines some supplies continued to be available despite the diversion of American factories to munitions. A small flow of machines continued to come from the United Kingdom while a special allocation of 12,000 through Lend-Lease in 1942, in response to urgent appeal, met the immediate needs of the Services. But it was clear that typewriters already in use must be the main source for essential needs beyond that special allocation and, commencing in March 1943, the Department of Supply organised a campaign for the buying of second-hand typewriters through normal trade channels, at prices determined by the Prices Branch, resale being controlled by a permit system. Some 7,000 machines were thus obtained for the armed services and Commonwealth departments; the number distributed under the permit system to private enterprise was not recorded. Somewhat

similar problems arose with other office machines: for bookkeeping, duplicating, calculating and similar processes, although organised purchase of second-hand machines was not adopted. Apart from sponsoring Lend-Lease imports and supervising their allocation, the main function of the Department of Supply was, by the use of permits to sell, controlling the distribution of both new and second-hand machines.

Supply of automotive spare parts became critical during 1942. These were mainly imported, primarily from the United States, and stocks of these were heavily depleted by the Services whose orders took priority. Such local manufacture as existed was largely pre-empted by Service orders for the simple reason that allocation of materials for civilian orders was not available. Action was precipitated by notice from America of drastic curtailment of the supply of imported parts; no major assemblies at all would be provided and parts for what the Americans regarded as "obsolete" vehicles would no longer be available. The definition of obsolete, in effect, meant cars, utilities and light trucks more than seven years old and heavy trucks more than ten. At that time barely 28 per cent of all cars, utilities and trucks in Australia were less than five years old and surveys in detail indicated that in a short time half or more of all vehicles in Australia would rate as obsolete.

Apart therefore from pressure for a less rigid approach by Lend-Lease main reliance had to be on local production. Control of this was vested, appropriately, in Munitions but distribution became the province of Supply, whether the parts were produced directly by Munitions or through a multitude of local manufacturers, including local service stations.[2] Distribution, through normal trade channels, was controlled by permits involving both a grading of purchasers and of parts. For want of a better test, the priority numbers allotted to holders of fuel licences were used (but supplemented by *ad hoc* individual judgments because the fuel licence classes were broad and involved many anomalies) in assessing who might buy spare parts. But the parts themselves were classified according to their scarcity from time to time, and the priority number required for their purchase varied. It was a system which left scope for evasion through "backyard" production and supply without permit from small workshops, but substantially it worked well enough.

CLOTHING AND TEXTILES

Between the entry of Japan into the war and the middle of 1943 the role of the Department of Supply in relation to clothing and textiles was transformed from one in which it was primarily concerned with placing orders for the Services and supervising their fulfilment to one in which it exercised widespread control and eventually, under prodding from the Australian Clothing Council, accepted responsibility for detailed administration of orders relating to civilian clothing.

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[2] Control of Automotive Spare Parts Order, 11 May 1943.

The Department's initial approach to the exercise of direct control over textiles and clothing was clearly illustrated in one field where action antedated the Pacific war: the control of the use of natural silk. Pre-war the major source of supply to all the Allied countries, including Australia, was Japan, and as the diplomatic situation in the Pacific worsened in the latter half of 1941, the prospect of the end of all new supplies had to be faced. A Control of Silk Order of 2nd August 1941 was the first step to requisitioning of all stocks of raw silk and, for practical purposes, limiting its use to two purposes: the manufacture of man-dropping parachutes and the insulation of fine wires used in aeroplane electrical equipment.

Even so, when war in the Pacific did come, it was not expected that natural silk supplies would meet even these specialised needs and control extended to artificial fibres which were to some extent substitutes. None of these was then manufactured in Australia and nylon, the best substitute for the priority uses of raw silk, was then a new product. Limited supplies were obtained by an allocation through the Commonwealth Supply Council from the expanding American production; use was also restricted to toothbrushes, man-dropping parachutes and fine-wire insulation.

In time control was to extend to rayon wholly obtained from the United Kingdom, but this was not until 1944 as part of the general control of textiles and clothing production then being exercised by the Department, and by then supplies were sufficiently liberal to make detailed control almost unnecessary, in part because of the Department's success in sponsoring import requests. The Silk and Synthetic Fibres Control therefore remained as it had begun, largely one for ensuring absolute priority to Service demands and restricting those demands to clearly vital ones.[3]

Control of woollens was prompted by a different situation. Pre-war Australia was able to produce annually around 32,000,000 square yards of woven cloth, nearly 6,000,000 pounds of knitted goods, together with nearly 1,000,000 pairs of blankets and 4,000,000 pounds of hand-knitting wool. The pressure of wartime needs, including the drastic reduction of imports, especially of cotton goods and yarn, produced dramatic increases in output. Output of cloth (including blankets) reached nearly 60,000,000 square yards at the peak in 1943 (54 per cent above pre-war consumption). Wool yarns reached a peak of 76,000,000 pounds, 28 per cent above pre-war usage. To a high degree these increases represent the substitution of local production of woollens for imports, such as cottons, available only precariously and in meagre quantities.

But there was also the insistent demand of the Services which, by the end of 1941 when Australia was denied access to normal supplies of cotton and artificial silk materials, were absorbing three-quarters of total Australian output.[4] The pressing threat to supplies for civilians of clothing

[3] A Controller (L. S. Gough, of Prestige Ltd) was not appointed until July 1943.

[4] These figures summarise a mass of untidy statistical material collected by Supply. That Department's surveys and questionnaires, designed and directed towards immediate short-term objectives, were the despair alike of the Acting Commonwealth Statistician and of other departments which wanted data for their own purposes for which material collected at irregular intervals, without uniform categories for temporal comparisons, often organised by enthusiastic amateurs, proved frustrating.

and other textiles was the spur which led to the introduction of clothes rationing and to measures of standardisation and simplification to enlarge the supply of basic utility clothing.[5] There was more immediate result in the creation of a control of woollens, mainly as a result of vigorous pressure by War Organisation of Industry for the Department of Supply to take proper responsibility for production of essentials for the civilian market, including some direction as to what should be produced as well as recognition that there must be a rational relationship between Service and civilian shares of the limited total supplies.

Broadly the Control of Woollens Order[6] brought all spinning and weaving of wool under the authority of a Controller.[7] There followed some substantial improvement in the civilian situation, but it was disappointingly small, in part because old ways of thought died hard. The Department of Supply continued to see its primary function as ensuring the filling of Service orders (now enlarged by demands from the Americans and others such as the Eastern Group Supply Council). Its approach was broadly to assess the total capacity of each mill to determine what was not absorbed by Service orders, and then to give general directions as to its use in producing types of materials believed to be those in general demand for the civilian market, in the light of the type of product for which the mill was best adapted. It was unwilling to become involved in distribution, relying on the comfortable doctrine that ordinary trade channels would handle this efficiently. Policing of control was limited to obtaining monthly returns of output and periodic samples of materials produced.

On the other hand it could be said for control in the Department of Supply that it was inappropriate for administrative officers in a single department to formulate and implement policies as to the quantities and types of garments to be produced for the civilian market. War Organisation of Industry had taken the first steps towards planning utility clothing and key officers in those sections of Supply concerned with clothing and textiles were themselves advocates of clothes rationing. When rationing was introduced and clothing simplification orders issued, the basis was laid for direction as to what might be produced and in what quantities.

Control of production of cotton materials followed a broadly similar pattern, with differences in operation because the major supply of raw cotton was imported. Pre-war only one-sixth of Australian consumption was met by local production (in Queensland) and the scale of local manufacture was modest, satisfied by less than 12,000,000 pounds of yarn a year. Wartime production was more than double, being 29,300,000 pounds in 1943, the major part for defence orders. This greatly increased demand had to be met in conditions in which imports from Britain were reduced to a trickle of special grades of yarn, and those from India, the only other significant source of supply in 1942 and 1943, were at high prices. Government to government purchases from India helped to fill

[5] For rationing, see Chapter 11; for clothing simplification, Chapter 7.
[6] 7 Mar 1942.
[7] R. J. Vicars of John Vicars and Company.

the gap, in part because in fact though not in form, Indian supply of cotton was linked with Australian supply to India of wool and woollen goods.

Formal control of the industry was established in March 1942,[8] marking the transition from primary concern of the Department of Supply with the filling of Service orders to at least formal responsibility for civilian supplies as well. The control order included sweeping powers to give directions as to what might or might not be made, but, as with woollen goods, it was not until some months later that this type of control became fully effective.

Other controls followed. These arose, not as woollen and cotton controls had, out of the need to reconcile Service and civilian needs. Formal civilian rationing was not far away, and the need was for administrative machinery which would ensure that production of goods primarily for the civilian market should be directed to ensuring that clothing provided for in the rationing regimen should in fact be available, and that it should be produced according to the simplified specifications beginning to flow from War Organisation of Industry.

These even included a Corset Control (though no Controller was ever appointed) to supervise observance of the Control of Elastic Materials Order of June 1942, which, as part of the restraint on the use of rubber, specified in some detail the quantities of elastic material which might be used in corsets and similar garments. But the most important of these later controls was that over knitted goods.[9] The Controller established a register of firms engaged in their production (484 in all, almost all in Victoria and New South Wales) and was therefore ready to begin implementing on the production floor the control of clothing style orders which were issued in July. Manufacturers were required to submit samples, in duplicate, of what they proposed to produce, not only to conform to the prescribed styles, but to minimise use of labour and equipment and to yield durable garments. One sample of each approved garment was retained as a check, the other returned to the manufacturer as his authority to produce.[1]

The introduction of clothes rationing and of War Organisation of Industry's orders for simplification and standardisation of clothing initially produced not clarification of objectives but confusion and conflict for there were now six departments directly concerned with overlapping aspects of the production and distribution of clothing. Each had its own distinct functions, rights to administrative action, and rights to make submissions to Production Executive and to the Allied Supply Council. The solution found, the more readily because it was by now a well-tried device

[8] Control of Cotton Materials Order, 7 Mar 1942. The Controller appointed was R. J. Webster of Bradford Cotton Mills.

[9] Control of Knitted Goods Order, 30 Apr 1942.

[1] Special permits were given to enable a manufacturer to use up existing stocks of material of specialised kinds, and in some cases to produce limited supplies of garments for particular classes of users: for example, swim suits (prohibited by Non-essential Production Order No. 9, 6 Aug 1942) were from time to time allowed in limited quantities for, for instance, members of the Services.



"IT'S MOMENTS LIKE THESE"—

"Inspectors are to visit workrooms and, if necessary, stop people in the street who might be suspected of offences against the new clothing regulations."

"You got any rubber about your person?"

Frith in Bulletin (*Sydney*), *29 Jul 1942.*

for such situations, was an inter-departmental committee of more than usual formality: the Australian Clothing Council.[2]

The Council was, administratively, located in the Department of War Organisation of Industry which provided the chairman. This was an explicable arrangement since it appeared a clear example of the "co-ordinating" function allocated to War Organisation of Industry, and also, at a lower level, because that department (and to a lesser extent the Rationing Commission) was highly critical of the activities of the Department of Supply in relation to the production of civilian clothing and its continued apparent preoccupation with Service orders. The other members of the Council represented Supply, Division of Import Procurement, Rationing, Prices and Manpower. The statement of functions indicated the areas of friction: co-ordination of the (clothing) activities of the member authorities, and in particular resolving issues as to their spheres of operation; exchanging information; advising Production Executive on all matters relating to clothing; advising the Allied Supply Council on clothing matters. To carry out the last two, it was prescribed that any submission to either body by any member must first be submitted to the Clothing Council. So, too, must any Order which a member proposed to proclaim.

In practice the most important function of the Council came to be that it provided the mechanism for pooling of information, discussion of problems, and agreement on co-ordinated action and as such it worked reasonably well in the latter half of 1942 and early 1943 since, however ambitious for its own expansion or jealous of its territory a member department might be, in the conditions of that time the impossibility of acting otherwise than in association was clear. There were areas of difficulty. Supply, for instance, continued to be unwilling to accept responsibility for War Organisation of Industry's clothes styling orders, especially those relating to feminine clothing.

By its very success the Council had largely outlived its usefulness by mid-1943. Spheres of authority were clearly delimited; established procedures for co-ordination of action and exchange of information, informal as well as formal, were working; and Supply, by establishing a Directorate of Clothing and Textiles which unified the previously largely uncoordinated "controls", had convinced other departments that it was now, in relation to clothing, far from being primarily interested in Service orders.[3] It was time to ask whether the now largely formal functioning of the Council was not creating unnecessary work in the preparation of reports. Discussion was initiated by a proposal from the new Director of Clothing that the Council be enlarged by including as additional members the various Supply Controllers. A year earlier this would have been resisted as a

[2] Approved by Production Executive on 30 June 1942. As part of the formalism the statement of membership, functions and powers was called a "charter".

[3] Formally established in June after a still-born plan in January 1943 had been abandoned. The Director appointed was G. A. Davis, then Controller of Defence Foodstuffs, and part of the acceptability of later developments to other authorities stemmed from this choice. War Organisation of Industry, for example, had had experience of working with Davis on other matters.

blatant takeover bid, but now produced recognition that the need for the Council had largely disappeared and its functions were being efficiently discharged by normal inter-departmental contact. It was resolved the Council should "go into recess" and in fact it did not meet again after August 1943.[4]

[4] Last meeting 31 Aug. The formula which made it possible for War Organisation of Industry to reactivate the Council of its own volition, represented the caution of Chippindall, Director-General of War Organisation of Industry, who nursed suspicion of empire-building by A. V. Smith, Director-General of Supply, a suspicion that was mutual.

CHAPTER 5

GROWTH OF MUTUAL AID

UNITED STATES LEND-LEASE

DURING 1941 United States Lend-Lease had been marginal to Australia's production and procurement of war materials. Although the *Lend-Lease Act* was passed on 11th March 1941 there had been long delays and no little confusion in establishing administrative machinery, so that the first modest consignments[1] did not begin to arrive until November and December 1941. In any case American money was to be spent on lend-lease "for the defense of the United States" and until Pearl Harbour Australia was a mere footnote in American strategic thinking.

The situation changed rapidly with the outbreak of the Pacific war. President Roosevelt responded swiftly to urgent Australian requests for assistance, and directions were given to provide all possible lend-lease aid as expeditiously as possible to Australia. A special Australian "lend-lease expediter" was brought into the Office of Lend-Lease Administration (OLLA) in Washington and given direct access to the White House: the normally tortuous procedures were short-circuited as much as possible. And then in March 1942 William S. Wasserman was attached to the American Legation in Canberra, with the title of Chief of the Lend-Lease Mission in Australia, for the purpose of facilitating Australian-American co-operation in the provision of lend-lease and reciprocal aid.[2] Similarly Colonel Roop was appointed American representative on the Allied Supply Council with authority to speak for the General Purchasing Board in relation to supplies required by the American army in Australia. By mid-1942 lend-lease arrivals in Australia (mainly in the form of aircraft, weapons, ammunition and machine tools) reached a monthly rate of $US26,000,000 compared with a total of about $US9,000,000 for 1941.[3]

But the American acceptance of Australia's need in the dark days of early 1942 was only the beginning of the lend-lease story. Australian officials had a long way to go before they appreciated fully the political and administrative idiosyncracies of lend-lease supply. There was early recognition of the political sensitivity of the United States Administration towards lend-lease, but there was never complete adjustment to the continual changes in policy and the habit of the Administration to contradict itself at different levels of authority. As with British officials,[4] Australians found it hard to accept that representatives of OLLA might not be reflecting faithfully the views of the head of Lend-Lease Administration, and that the views of the President and the Secretary of State might differ

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[1] The only significant lend-lease shipments to Australia before Pearl Harbour were fifty Lockheed-Hudson bombers without motors, a few light tanks and several hundred trucks. E. R. Stettinius Jr, *Lend-Lease: Weapons for Victory* (1944), p. 170.

[2] Throughout the term "reciprocal aid"—Australian aid to the United States and her forces—will be used in preference to the more cumbersome "reverse lend-lease".

[3] Lend-Lease Statistics, Report No. 33, Table 5.

[4] The outstanding summary of these problems from the British point of view is in R. S. Sayers, *Financial Policy 1939-1945* (1956), pp. 375-83.

from those of OLLA. Further, American lend-lease personnel were continually changing. No sooner had sympathy and understanding been established between American and Australian officials than the Australians found that diplomacy and education must begin again. The creation of favourable personal relationships was extremely important in lend-lease negotiations, for it soon became clear that important policy questions were frequently determined by individual inclination. Fortunately there were few changes in the leading Australian officials dealing with lend-lease matters so that some degree of continuity was maintained.

For their part Australian departments and officials were slow to learn the lend-lease "technique". Admittedly the procedure was complex and it was understandable that requisitioning departments should have felt that the task of providing meticulous documentation for lend-lease orders was a minor facet of the urgent task of defending Australia. But the Australian Trade Commissioner in North America, L. R. Macgregor,[5] in charge of lend-lease negotiations in Washington, was severely handicapped by lack of Australian attention to detail. Macgregor emphasised repeatedly during 1942 that lend-lease goods could only be obtained in active competition with other countries, and that the Americans required full details of the proposed end-use of the requisitioned items, and an assessment of their essentiality. It was also important that consolidated orders be placed; it was damaging and embarrassing if supplementary orders were received in Washington after an initial order had been approved. The Division of Import Procurement, established in September 1941 within the Department of Trade and Customs, worked strenuously to rectify deficiencies of requisitioning authorities but there was no marked improvement until the end of 1942.

Some uncertainty and misunderstanding also stemmed from the fact that policy negotiations and administration were conducted on an Anglo-American basis with a minimum of consultation with other lend-lease recipients. This was of course understandable. The *Lend-Lease Act* had sprung from the British dollar crisis of 1940 and the continuing financial difficulties of the United Kingdom were at the heart of lend-lease negotiations for the remainder of the war.[6] The Americans made no distinction between the United Kingdom and other parts of the Empire and they assumed that the British Government spoke for all the constituents. For her part the United Kingdom did nothing to dispel this impression because her own interests were best served by establishing in the mind of the United States that Empire resources were pooled for the common war effort. Thus from the outset lend-lease was for the Empire and all lend-lease requisitions were channelled through the British Purchasing Commission in Washington. Identification with the British war effort was initially to Australia's advantage, but there was less enthusiasm for the arrangement as Australian reciprocal aid grew. Nevertheless, Australia's

[5] L. R. Macgregor, CBE. Aust Govt Trade Commr in USA 1938, in N. America 1941; Dir-Gen Aust War Supplies Procurement Mission in USA 1940-45; Aust Min to Brazil 1945-48. B. England, 1886. Died 28 Feb 1973.

[6] See Butlin, *War Economy 1939-1942*, pp. 431-4.

requisitions continued to be passed through the British Purchasing Commission throughout lend-lease and, technically, Australia received lend-lease by reassignment from the United Kingdom. However, British officials made no attempt to "vet" Australian requisitions.

Rigorous British control of negotiations was aided by inadequate Australian representation in Washington. Lend-lease was only one of the many important matters that demanded the attention of the Australian Minister to the United States (first R. G. Casey, then Sir Owen Dixon, followed by Sir Frederic Eggleston)[7] and the Australian Trade Commissioner, and it was inevitable despite the best efforts of these representatives that lend-lease matters did not receive the attention that they deserved. Australian lend-lease representation in Washington was reorganised in December 1941 with the establishment of a co-ordinating body known as Australian War Supplies Procurement (A.W.S.P.) with Macgregor as Director-General and an increased technical staff, but the Australian Mission continued to be understaffed at the higher level.

From the outset of lend-lease Australian officials struggled in vain to pin down OLLA to a precise definition of the scope of the scheme. The *Lend-Lease Act* restricted aid to defence information and defence articles, and the latter were defined with apparent simplicity and clarity as follows:

(1) any weapon, munition, aircraft, vessel or boat;
(2) any machinery, facility, tool, material or supply necessary for the manufacture, production, processing, repair, servicing or operation of any articles described in this sub-section;
(3) any component material, or part of, or equipment for, any article described in this sub-section;
(4) any agricultural, industrial or other commodity or article for defense.

It was some time before the Australians realized fully the masterly ambiguity of sub-clause (4). The United States Administration had placed all the emphasis on warlike goods but at the same time had left itself some freedom to provide services and materials for the indirect war effort; and the scope of this could be altered from time to time to accommodate the changing political temper of Congress and the supply capacity of American industry. In 1941 and the first half of 1942 the United States interpreted the scope of lend-lease liberally: her own industries were not yet at full capacity and the United Kingdom required the maximum assistance to relieve her dollar position. Thus Britain received large quantities of food, tobacco, cotton and other civilian supplies, and Australia expected similar treatment after the American acceptance of her strategic importance. But by mid-1942, when Australia began requisitioning tinplate, tobacco, cotton and other supplies for the indirect war effort, the United States was no longer in a position to accept these commitments without qualification. First, the *Lend-Lease Act* came up for renewal early in 1943 and the Administration was showing increased sensitivity to the criticism of lend-lease by the "isolationist" lobby in Congress. Second, American industrial

[7] Sir Frederic Eggleston. 1st AIF. MLA Vic 1920-27; Aus Min to China 1941-44, to USA 1944-46. B. Brunswick, Vic, 17 Oct 1875. Died 12 Nov 1954.

capacity was already at full stretch and there was a limit to the additional commitments that could be accepted. Lend-lease was limited to the goods and services that could be supplied from domestic American sources without the expenditure directly or indirectly of foreign exchange. Thus, increasing attention was given by the United States Administration to ways of restricting the scope of lend-lease, and from mid-1942 the question of "eligibility" dominated American-Australian lend-lease negotiations.

Even for materials whose "eligibility" was not seriously in question, administrative difficulties persisted well into 1942 despite the improved communications established at the beginning of the year. The main problem was the delay between filing a requisition and the receipt of the goods. The Australians were prone to blame the Americans and the stringent checks they imposed before accepting a lend-lease order.[8] But, as already noted, Australian shortcomings were partly to blame and Macgregor pointed out in April 1942 that a clearance or rejection had been obtained within twenty-four hours in many instances.[9] Apart from administrative rigmarole, the basic problem was the overloading of American manufacturers and uncertainty about strategic priority.

In an effort to clarify strategic priority and expedite deliveries, a revised procurement procedure known as the Curtin-MacArthur-Wasserman agreement was signed on 21st May (introduced on 7th June 1942). The idea was to improve Australia's priority rating by exploiting MacArthur's prestige in Washington. The basic clause of the agreement stated that "All requisitions of the Australian Armed Forces shall conform with plans approved and priority rulings laid down by the Commander-in-Chief, South-West Pacific Area". In brief, all requisitions for finished munitions and war materials were to bear MacArthur's imprimatur before being sent to Washington.[1] But the results of this change were disappointing. The detailed procedure was not always adhered to, with subsequent confusion, and the Australian assumption that MacArthur's approval would activate the United States War Department in Australia's favour proved to be unfounded. The War Department merely filed MacArthur's approvals and awaited the formal submission of a requisition through British channels in the normal way. Further delay resulted if Macgregor was not notified of the initiation of a requisition, as was all too frequently the case. As Macgregor informed Canberra "You have unity of command without unity of supply". Supply to the South-West Pacific forces was being dealt with by two entirely different methods: one direct and simple (from

[8] The following tests were evolved by OLLA in the early months of 1942: 1. To what use is the commodity to be put? 2. Has the need for the quantity requested been established? 3. Has the United States capacity to produce the commodity? 4. Can it be spared from the United States? 5. Are funds still available? 6. Can the commodity be obtained in the sterling area? 7. Is the article the most economical for use? 8. Is a substitute available? 9. Is the item the most economical of shipping? 10. Is shipping available? The tests illustrate that even for war materials no commodity was automatically eligible for lend-lease; everything depended on the particular case submitted.

[9] G. W. Paton, "Lend-Lease and Reciprocal Lend-Lease" (unpublished report for the Treasury) Mar 1943, Appendix A, p. 8.

[1] In the case of non-war goods a slightly different procedure was followed. Instead of orders being sent to Macgregor for processing through the British Purchasing Commission, they were sent to the United States Lend-Lease Mission in Australia for examination, and then to MacArthur for approval, back to the Australian department concerned, and finally to Macgregor who lodged them with OLLA.

United States forces to American departments) the other extremely complex and circuitous (from Australian-American forces to OLLA through the lend-lease machinery).

Nevertheless, the procurement arrangements remained substantially unaltered for the remainder of the war. Minor procedural changes followed the establishment of the Commonwealth Supply Council in October 1942. As noted in chapter 4, the Commonwealth Supply Council was created to assist in relating the productive capacity of the United Kingdom and the United States to the requirements of the United Nations. Australia suspected with some justification that the Council's real function was to determine lend-lease allocations within the Empire, particularly in relation to goods for the indirect war effort. The Government agreed to supply information for the work of the Commonwealth Supply Council in London, but it resisted any suggestion that Australia should justify her lend-lease requisitions in both London and Washington. The result was merely that information was supplied to London about the overall Australian supply situation; what Canberra believed to be close Australian-American cooperation by means of the Curtin-MacArthur-Wasserman agreement was not disturbed. The episode does illustrate, however, one persistent Australian attitude as far as lend-lease and reciprocal aid were concerned: that the British could not be relied on to represent adequately Australia's interests in negotiations with the United States, and that the Americans were more likely to meet Australia's requirements if the Anglo-American channels could be by-passed. This view held firm despite continual frustration and disappointment with the decisions of the United States Administration.

Australia's introduction to the politics of lend-lease "eligibility" and the nature of United States public servant responsibility occurred in mid-1942. In a series of pronouncements Wasserman asserted that the requisitions Australia was making for essential civilian commodities—mainly tobacco, tinplate, cotton and wood-pulp—should be severely pruned. This view was the more damaging because Wasserman continued to question Australia's need for these commodities after his return to Washington in June. The Division of Import Procurement maintained that Wasserman's judgement was based on information supplied privately and by interested parties, and that he had little technical experience in dealing with the matters in question. For example, Wasserman maintained that Australia would require less tinplate in future because her food-processing industries would switch to the manufacture of dehydrated products. It was not clear where this information came from, but there was no substance in it. Further, Wasserman argued that shipping space would be saved by reducing lend-lease exports of civilian items, whereas in fact a full cargo for Australia could only be arranged by a combination of munitions and civilian goods. Urgent representations made by the Prime Minister secured from the State Department an assurance that requisitions of these items would not be disturbed and that Wasserman's views did not carry weight in Washington. But final approval of the requisition was delayed as a result;

much more information in justification had to be supplied by Australia; and further uncertainty was created about the scope of lend-lease.[2]

In addition to the main policy questions were a host of technical matters which defied a clear-cut solution and hampered the efficient administration of lend-lease aid. Two of the more important of these were questions about the legal title of goods (particularly durable goods) supplied under lend-lease, and the nature of financial recording.[3]

The authority of a recipient of lend-lease to transfer the title of any item was a particularly complex matter. The name of the Act was "Lend-Lease" not "Gift-Sale" but the operative section authorised the President of the United States to "sell, transfer title to, exchange, lease or otherwise dispose of". The President's power was therefore without formal restriction, but there was considerable uncertainty as to the way in which the President proposed to exercise this power—mainly because he wished to avoid definition so as to be able to adjust policy to changing political circumstances.

There were two aspects of the question. The first was transfer of title from the United States to the Governments of countries receiving lend-lease;[4] and the second retransfer of title from recipient Governments to munitions contractors, consumers, etc.

The first was complicated by the fact that Article V of the Mutual Aid Agreement between the United Kingdom and the United States (discussed in detail below) provided that "The Government of the United Kingdom will return to the United States at the end of the present emergency, as determined by the President, such defense articles transferred under this agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful to the defense of the United States or of the Western Hemisphere or to be otherwise of use to the United States." The hard questions raised by the wording of this clause were not faced until the termination of lend-lease in 1945. For most articles transfer of title from the United States to the Australian Govern-

[2] Uncertainty was also created about the function of the United States Lend-Lease Mission. When the Lend-Lease Mission was established in Australia in Mar 1942, it was believed that the Mission's main purpose was to expedite deliveries and help co-ordination in any other way possible. However, as a result of the "Wasserman affair" and other events, Australian officials believed that the Mission's main task was to police lend-lease aid. At the time of the "Wasserman affair" an Executive Director of OLLA assured British officials in Washington that the function of Missions was "to help in determining the facts back of the need for the material, putting extra pressure on to get it, and seeing if they can help you in getting technical help in order to use the goods efficiently on the spot". Generally the Australian Mission did function in this way, but there was also evidence of policing tactics from time to time and these increased in frequency as the war progressed.

[3] Other technical difficulties arose because the United States Administration did not favour the re-export of lend-lease goods except to the Forces, yet a significant proportion of lend-lease tinplate was re-exported in the form of tinned food for civilians in the United Kingdom and elsewhere. Difficulties were also encountered in protecting the patent rights of American citizens in the case of acquisition of defence articles or information. Further, the United States could not sanction large profits being made from the commercial distribution of lend-lease goods and insisted that where commercial distribution was necessary profit margins should be rigidly controlled. These points were covered by Anglo-American agreement which was incorporated in the United Kingdom Export White Paper of Sept 1941. See R. S. Sayers, *Financial Policy*, pp. 398-405. The Australian Government accepted the principles of the Export White Paper by War Cabinet Minute 1547, 5 Dec 1941.

[4] For Australia there was the additional technical question about retransfer from the United Kingdom (because the British Government remained the formal recipient of lend-lease aid to the Empire), but the United States accepted readily retransfer from the United Kingdom to the Empire.

ment was effected *de facto* with both sides refraining from asking awkward questions. In any case, for most goods and materials supplied under lend-lease the matter simply did not arise because of destruction or early obsolescence. However, full records were as far as possible kept of the disposition of capital assets as an insurance against the inevitable problems of lend-lease Stage III (the nomenclature used to describe the winding up phase after the defeat of Japan).

The second part of the matter, relating to the retransfer of title from the Australian Government to users, presented day to day practical problems which could not be deferred. At the same time any general rule that could be laid down was unlikely to be workable in view of the range of items supplied under lend-lease. In November 1941 E. R. Stettinius Jr, United States Lend-Lease Administrator, informed the British Supply Council that the Australian and other Dominion Governments could (with the President's consent) retransfer title to firms and individuals performing *defence* contracts which was interpreted as giving blanket approval for retransfer in clear-cut cases of defence production. It was assumed that other cases would have to be submitted for special approval. In view of this the Australian War Cabinet decided to retain title of capital goods as far as possible, and to sell rather than to lease goods for civilian consumption and production.[5]

The financial recording of lend-lease presented few early difficulties, but the subject proved to be of ultimate political significance. One of the main purposes of the *Lend-Lease Act* was to remove the dollar sign from war and post-war settlement of inter-governmental obligations; there was to be no repetition of the crippling burden of indebtedness imposed on many governments as a result of the war of 1914-18. The United States would receive her "consideration" in the form of an international economy freed from the strictures of excessive interest commitments and, hopefully, from discriminatory tariffs, which would allow world trade to expand rapidly. During the first year or two of lend-lease little attention was given to recording the money values of either lend-lease or reciprocal aid. It was accepted that the compilation of comprehensive statistics would have absorbed a great deal of manpower and paper on both sides of the Pacific and contributed nothing to the war effort. Records were kept and invoices provided when costs were readily available, but there were many aspects of mutual aid—such as services supplied to the American forces stationed in Australia—that defied the accountant's abacus. The shortage of full documentation was occasionally irritating, for example when precise information was not available to determine accurate selling prices of civilian goods obtained under lend-lease. But the benefits of eliminating full commercial documentation far outweighed such minor inconveniences.

The Government's budgetary arrangements in connection with lend-lease were equally informal. No attempt was made by the Treasury to establish a reserve fund for the repayment of any item obtained under

[5] War Cabinet Minute 1547, 5 Dec 1941.

lend-lease. When goods were sold by the Government the receipts were applied to the relief of war expenditure. Apart from the convenience of the arrangement, the reason for this was that the United Kingdom preferred not to establish any appropriation which might be viewed by the United States as potential repayment. Also, the United States for internal political reasons did not want any figures published (in the budget or elsewhere) which could be used unofficially to calculate the value of lend-lease aid. American policy on this, as on most other matters, fluctuated considerably, but during 1942 the United States was intent on keeping any publicity within its own hands.

THE EXTENT OF MUTUAL AID

The benefits of mutual aid were similar to the theoretical gains from a rapid expansion of trade in the absence of tariff or currency restrictions. Despite the quibbling about "eligibility" which became more pronounced as time passed, lend-lease filled a vital gap in Australia's industrial capacity. As shown in the table, lend-lease imports were concentrated in those categories of defence supplies in which Australia was most deficient —munitions (especially aircraft, fighting vehicles, heavy armaments and ammunition), transport equipment (especially motor vehicles and locomotives), industrial equipment and metals (especially machine tools and tinplate), and petroleum. In return Australia provided as reciprocal aid those goods and services which economically or geographically she was best able to supply—mainly the day to day requirements of the American armed forces such as food, clothing, light armaments and ammunition, transport, light watercraft, and construction of bases and hospitals. In the context of total war, mutual aid made possible a much more effective utilisation of available manpower than would otherwise have been possible. It enabled a far greater diversion of resources to the war effort than would have been possible in the absence of lend-lease. Also lend-lease added significantly to the country's manufacturing capacity, particularly for the production of a new range of sophisticated equipment such as harvesters, electronic parts and can-making machinery to mention only a few.[6]

But the undoubted benefits of mutual aid were not distributed evenly during the four years of its operation; nor was the division of labour theoretically attainable by the combined planning associated with mutual aid fully realised. During 1942 and 1943 mutual aid grew rapidly and a high degree of supply complementarity was achieved between the two countries—indeed between the Allies as a whole. To be sure, supply bottlenecks occurred and full integration was hindered by differences in military equipment and standards, but during these two years an effective division of labour was achieved on the criterion of comparative economic efficiency. During the second two years of mutual aid, however, there was some reversal of the trend towards specialisation of supply function brought on by the changing war situation and by American and Australian policies. Details will be discussed later but in substance the reversal was

[6] See Mellor, *The Role of Science and Industry*, and Table opposite page.

United States Lend-Lease Aid to Australia, 1941-45
($US'000)

Category	1941 Mar-Dec	1942	1943	1944	1945 to V-J Day	Total
Munitions	5,975	141,091	168,065	83,544	154,102	522,677
Transport equipment	—	17,988	57,502	54,666	36,446	166,602
Industrial equipment and metals	1,045	43,600	80,992	64,396	28,645	218,678
Chemicals and medical supplies	170	4,576	8,108	6,000	2,670	21,524
Textiles	933	9,046	25,363	27,470	12,221	75,033
Timber, paper, pulp	99	2,017	5,498	7,239	3,220	18,073
Food and tobacco	1,313	3,977	13,559	3,893	11,386	34,128
Petroleum products	—	21,545	58,878	43,379	13,889	137,691
Other goods	5	1,247	6,687	9,563	—	17,502
Total goods, f.o.b.	9,440	245,087	424,652	300,150	262,579	1,241,908
add unrecorded freight and other services	1,274	33,087	57,328	40,520	35,448	167,657
Total Lend-Lease	10,714	278,174	481,980	340,670	298,027	1,409,565
Australian-currency equivalent of total Lend-Lease	£2,551	66,232	114,757	81,112	70,959	£335,611

As all lend-lease (and reciprocal aid) figures are approximate, the estimates in the table should be treated with caution. Financial recording was occasionally incomplete and arbitrary, and the ultimate destination of lend-lease exports to countries within the British Empire was frequently obscure. Nevertheless, the figures—compiled mainly from Australian sources—agree closely with the American estimates (the recorded Australian figure is 1.75 per cent lower than the American). The total figure given by R. G. D. Allen in "Mutual Aid between the United States and the British Empire, 1941-45", *Journal of the Royal Statistical Society*, Vol CIX (reprinted in Sayers, *Financial Policy*, Appendix III) of $US1,570 million appears distinctly too high. The total figure given in the table is, however, much more reliable than the components. Several adjustments are necessary to the figures recorded by the Division of Import Procurement. First, the Australian figures have been brought into line with the United States estimates because the former were acknowledged to be incomplete and the Americans were much more assiduous "dollar-counters". Second, following R. G. D. Allen's method, 13½ per cent has been added to f.o.b. lend-lease imports to cover the cost of freight and services supplied in the United States but not subject to financial recording in detail. The result is admittedly rough, but no information is available to calculate freight costs accurately. The proportion attributable to freight and other services is simply the average of total freight etc./total lend-lease exports. Third, the Australian currency equivalent is derived by the application of a standard rate of £A1 = $US4.2. The official rate of $US3.23 was acknowledged by both American and Australian officials as being too low in terms of relative costs of most war materials (excepting aircraft and motor vehicles). Australians maintained that a rate of around $US5 was more realistic, but as a general rate this is too high. The choice of £A1 = $US4.2 is a compromise but, on the assumption that the Anglo-Australian rate was realistic, is supported by Allen's estimate of the average Anglo-American rate for the period of £E1 = $US5.3.

Source: Lend-Lease Statistics, Report 33, compiled by Division of Import Procurement; *Reports to Congress on Lend-Lease Operations*, especially 20th and 21st Reports.

due, first, to increased United States reliance on American-produced supplies as the Allies moved north towards Japan during 1944. Some of Australia's capacity for the production of military stores on which the Americans had relied during 1942-43 was thus left idle as the main theatres of war moved from New Guinea to the Philippines and the Central Pacific islands. Second, Australia's military overcommitment which was manifest by mid-1943 prevented adequate production of those commodities which the country was best able to supply. In particular, American requirements of food could not be satisfied largely because of the acute shortage of rural labour (although poor seasonal conditions aggravated the situation), so that the Australian component of United States Army food consumption fell from about 95 per cent in 1942-43 to about 50 per cent in 1944-45.

Australian Reciprocal Aid to the United States, 1942-43 to V-J Day
(£A'000)

	1941-42	1942-43	1943-44	1944-45	1945 1 July-V-J Day	Total
Military Stores	2,023	18,356	28,979	23,769	3,971	77,098
Food	1,300	11,791	25,277	32,311	6,618	77,297
Services	992	8,996	38,298	30,206	5,625	84,117
Construction	2,185	19,814	17,872	2,847	330	43,048
Total	6,500	58,957	110,426	89,133	16,544	281,560
U.S. dollar equivalent	$US24,700	224,037	419,619	338,705	62,867	1,069,928

Note: Distribution of reciprocal aid between categories is approximate and is based on *Reports to Congress on Lend-Lease Operations*, for Australian statistics record only yearly totals. Conversion rate used is £A = $US3.8, lower than for lend-lease because of the greater proportion of relatively high-priced military stores in lend-lease imports.

Source: *Commonwealth Year Book* No. 46 (1944-45) and *Finance Bulletin* No. 38 (1946-47); *Reports to Congress on Lend-Lease Operations*, especially 20th and 21st Reports.

Although mutual aid played a vital part in the development of the Australian war economy, it is important to place the aid she received and gave in perspective. The bulk of lend-lease exports were destined for the United Kingdom and Colonies (62 per cent) and Russia (24 per cent). Australia with 3.3 per cent was simply one of several strategic areas such as Egypt, India and Ceylon, and New Zealand which received a small share. The role of Australia (and New Zealand) in the provision of reciprocal aid was strategically and politically much more important. The United Kingdom was in no position economically or financially to contribute a similar proportion to reciprocal aid as she received of lend-lease, yet from 1943 onwards growing pressure was on the United States Administration to reduce lend-lease or increase reciprocal aid, or both. As the Americans did not distinguish between the components of the

British Empire, indirect pressure was placed on Australia and New Zealand to make good some of the deficiency of other areas. Increasingly OLLA and its successor—the Foreign Economic Administration (FEA) —used reciprocal aid figures to prise from Congress a continuation of lend-lease expenditure, and in this strategy the comparatively large contribution from Australasia played a key role.

	United States: Total Lend-Lease Aid as percentage of War Expenditure	as percentage of Net National Income	Lend-Lease to Australia as percentage of Total Lend-Lease
1942	13.8	4.8	4.2
1943	15.1	7.1	3.9
1944	18.4	8.6	2.1
First-half 1945	14.3	6.5	3.8
Total (3½ years)	15.8	6.9	3.3
	Australia: Reciprocal Aid to United States as percentage of War Expenditure	**Net National Income**	**Reciprocal Aid to United States as percentage of Total Reciprocal Aid**
1942-43	11.0	4.8	15.2
1943-44	22.7	8.6	14.6
1944-45	23.2	7.1	10.5
Total (3 years)	18.4	6.9	13.0

Source: United States figures from R. G. D. Allen, "Mutual Aid between the United States and the British Empire", *Royal Statistical Society*, Vol. CIX (1946); Australian figures from previous table and *Estimates of National Income and Expenditure, 1945-46.*

This role, reinforced as it was by geography, imposed on Australian resources a relatively heavy burden. As a proportion of net national income, Australia contributed as much in the form of reciprocal aid to the American forces as did the United States in the form of lend-lease to all countries;[7] while reciprocal aid as a proportion of war expenditure in Australia was greater than the proportion of United States war expenditure absorbed by lend-lease. Further, although lend-lease exceeded reciprocal aid by 32 per cent according to our reckoning, there were long periods in 1944 and 1945 when reciprocal aid exceeded lend-lease. This merely emphasises the point that the main benefits for Australia of the mutual aid programme were concentrated in 1942 and 1943, and that as the war entered its final phase continued heavy American demands for food and clothing added further burdens to a war economy seriously unbalanced.

AUSTRALIAN RECIPROCAL AID

Australian reciprocal aid to the United States began decisively but unobtrusively almost immediately after the stationing of American forces

[7] The United Kingdom ratio of reciprocal aid to net national income was 4.6 per cent, although this rises up to about 7.0 per cent after aid to Russia and other countries is added.

on Australian soil in January 1942. The urgency of the war situation allowed no time for the working out of fine details. The Americans required accommodation, port facilities, hospitals, airports, clothing, food, ammunition and a great many other ancillary services and installations. In view of the acceleration of lend-lease aid to Australia the Americans could not be asked to pay cash for all their requirements, and the Government had no hesitation in providing as much as possible as reciprocal aid. The rule of thumb adopted in these early weeks was that the United States would purchase Australian currency for the pay of its Army and for day to day minor expenses; Australia would provide as reciprocal aid within the limits of its capacity the goods and services required by the American forces stationed in Australia.

From the outset a decentralised administrative approach was adopted. American requisitions were handled by the department most directly concerned with the particular item or service. Because of the financial implications of reciprocal aid the Treasury exercised a general co-ordinating function and was responsible to War Cabinet for policy, but there was no attempt to create a highly centralised Australian counterpart of OLLA. Expenditure was debited to a special suspense account until a more formal arrangement was worked out; ultimately reciprocal aid expenditure was handled in the same way as normal departmental financing. There was some early pressure to establish an office of reverse lend-lease administration, and the Americans were initially irritated by having to deal with a number of government departments. To be sure, the system developed in a topsyturvy fashion with practice far ahead of theory, but the Americans and other critics eventually accepted that the complicated lend-lease machinery was inappropriate for the administration of reciprocal aid. OLLA dealt in bulk orders for standard materials and equipment based on long-range forecasts of needs; reciprocal aid was concerned with comparatively small-scale provisioning covering a wide variety of goods and services which were required at short notice. Flexibility was therefore essential, and the system adopted allowed the development of reciprocal aid much more rapidly than lend-lease.

But the informal introduction of reciprocal aid left a great many policy issues unresolved. First, there was the question of the negotiation of a formal agreement with the United States. Second, it was judged necessary to secure some undertaking to guarantee Australia's external liquidity in view of the expected growth of reciprocal aid. Third, the eligibility of goods and services for reciprocal aid had to be defined. Fourth, aid could not be extended to all United States forces in the South-West Pacific Area and some geographical limitation had to be formalised. These four interrelated issues were the subject of intense tripartite negotiations between the United States, United Kingdom and Australia prior to the exchange of Notes between Australia and the United States on 3rd September 1942 which accepted the principles of the Anglo-American Mutual Aid Agreement of 23rd February 1942.

Initially Anglo-American negotiations occupied the centre of the stage.

As the flow of lend-lease to the Empire depended on the successful conclusion of Anglo-American discussions about the "consideration" for lend-lease, the Government and its administrators in Canberra were anxious that agreement should be reached as swiftly as possible. Since June 1941 these discussions had become entangled with the question of the post-war future of Imperial preference. As part of her "consideration" the United States wanted the elimination of all forms of trade discrimination and in the Anglo-American context this meant Imperial preference.[8] Some members of the British War Cabinet were equally determined to hold on to the preferential arrangement, while others believed that the United Kingdom's vulnerable international position required the retention of Imperial preference during the post-war transitional period at least.[9] The Australian Government was kept informed about the progress of negotiations but was not invited to become directly involved. An Australian inter-departmental committee was formed to consider the implications of the draft Article VII (which dealt with the post-war objectives of world economic relations) and reached the following tentative conclusions:

1. If we accept Article VII, we undertake to work step by step with the United States to expand international trade and to relax trade barriers: if we reject it, we must face an almost certain drift into a position where world trade is governed by restrictive agreements.

2. Acceptance of Article VII would involve our willingness to modify Imperial preference, with perhaps some adverse effects on certain export industries; it would also limit our freedom to impose prohibitively high tariffs. Nevertheless, on balance, Australia would probably gain from a relaxation of trade barriers, even if Imperial preference were modified or ultimately eliminated.

3. A general return to restrictive national trade would lead to contracting world trade offering little future for Australia.

4. The reciprocal character of the agreement should be emphasised and the importance of expanding production and trade in order to make relaxation of trade barriers acceptable. If this policy is carried out, the type of post-war collaboration implied in Article VII is in the long-term interest of the British Commonwealth, and provides a basis for peaceful international relations.[1]

War Cabinet reflected these sentiments when it urged in a cable to the United Kingdom on 10th February 1942 that Article VII should not be allowed to stand in the way of early Anglo-American settlement. Further, it decided that

Subject to clear understanding that the contributions to be made by the United States and other countries must be adequate and commensurate, Australia would be prepared to accept the commitments involved in Article VII and endeavour to give effect to them, even if this requires a modification of Imperial preference.[2]

After an assurance from Roosevelt that acceptance of Article VII did not commit the United Kingdom to early abolition of Imperial preference but

[8] See below Chapter 21.
[9] Sayers, *Financial Policy 1939-1945*, pp. 405-13; also see below Chapter 16.
[1] Paton Report, Appendix A, pp. 13-14.
[2] War Cabinet Minute 1878, 10 Feb 1942.

merely required her to engage in forward-looking discussions about post-war economic policy, the British Government accepted the Mutual Aid Agreement on 23rd February. The critical passages of Article VII emerged in a form acceptable in Canberra. The "consideration" for lend-lease was to be determined in such a way "as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations". To achieve this objective the United States and the United Kingdom undertook to provide for agreed action "open to participation by all countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all people; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers".[3]

Endorsement by Australia of the Mutual Aid Agreement appeared to be the simplest way of formalising Australian reciprocal aid, and the United Kingdom urged Empire countries to adopt this course. But there were a number of reasons for hesitation. First, it was not clear that the country would be able to withstand the burden that might be imposed on her resources by an unqualified acceptance of the Mutual Aid Agreement. Australia's strategic location in the South-West Pacific Area meant that she would probably be called on to supply a disproportionate share of reciprocal aid provided by the Empire, and the Government's aim was to ensure that this special position be recognised by the United Kingdom and the United States in such a way as to safeguard Australia's interests in the immediate future and in Stage III (the winding up phase after the defeat of Japan). A second and related factor was the traditional Australian suspicion of the "mother country". Some Australian officials believed that the United Kingdom would use reciprocal aid from countries such as India, Australia and New Zealand as an argument for greater lend-lease supply to the United Kingdom; or, more bluntly, that the Mutual Aid Agreement would be used to help solve the British balance of payments problem at the expense of the Empire. Australia was quite willing to provide as much aid as was within her capacity, but she was not prepared to sacrifice the tactical advantage of separate American-Australian mutual aid negotiations.

Concern about the burden of reciprocal aid was brought to a head in the first half of 1942 by the condition of international reserves. Australian reserves were in a healthy condition compared with the United Kingdom's, but the decline in London funds from £98,900,000 at the end of 1940 to between £50,000,000 and £60,000,000 in the first quarter of 1942 recreated in the minds of Australian officials the acute embarrassment of the early nineteen thirties. Maintenance of the A.I.F. abroad and other exceptional wartime expenditure as on the Empire Air Training Scheme were held to be largely responsible for the decline. While the future of

[3] Full text in *Foreign Relations of the United States 1942*, Vol. I, pp. 535-7.

these commitments remained unclear, the Government believed that London funds would be unable to withstand a diversion from exports to reciprocal aid on any scale. International reserves of at least £40,000,000 sterling (A£50,000,000) were regarded as essential for the conduct of wartime economic policy with any degree of freedom, and a guarantee that reserves would not be allowed to fall below this figure became a prime condition for the acceptance by Australia of a normal mutual aid agreement.[4]

When approached in February 1942 about the problem the Americans were understanding but unhelpful. The State Department insisted that the dollar sign should be kept out of all agreements. However, they were prepared to undertake, informally, to maintain the dollar position of the United Kingdom and Australia if the need arose, by the purchase of sterling and Australian currency respectively. The Australian Treasury wanted a much firmer commitment than this and feared the effect of any American dumping of Australian currency after the war. In substance the American view was that the Australian situation was an "internal" matter for settlement between Canberra and London. Slowly Australian officials realised, as had their British counterparts during 1941, that the United States would do no more than keep the sterling area solvent.

By contrast the British were found to be constructive as well as sympathetic. With a minimum of fuss Kingsley Wood, Chancellor of the Exchequer, and others accepted that Australia's international reserves should not be allowed to fall below £40,000,000 sterling. In May 1942 it was agreed in principle that the United Kingdom would provide an interest-free loan to maintain the reserve at this figure should the occasion arise, to be repaid as soon as the reserve exceeded the minimum figure. In June final details were accepted by both parties and the guarantee commenced in July.[5]

What appeared to the Government as the tough American stance on international reserves was, in fact, only a foretaste of what was to follow on the wider question of an Australian-American reciprocal aid agreement. Wasserman's initial bargaining position in March 1942 was that Australia should finance all United States expenditure other than the pay and allowances of American forces. The Australian view was that the Americans should pay for day to day requirements, the excess of American over Australian maintenance standards, and that there should be definite exclusions from reciprocal aid—especially items which required the use of foreign exchange. These positions remained unchanged when detailed negotiations began in Washington in May 1942. During several days of intensive discussion Dean Acheson for the State Department and H. V.

[4] In estimates of the effect of reciprocal aid on London funds, allowance was made for import-saving from lend-lease and for the purchase of Australian currency for the pay and allowances of the United States forces. But the foreign exchange benefits of these offsets were consistently underestimated and the reciprocal aid costs consistently exaggerated, and it is unlikely that mutual aid involved a net loss of foreign exchange at any stage of the war.

[5] In the event the guarantee was not needed as reserves in excess of the guaranteed minimum began to accumulate steadily from mid-1942. See also L. F. Giblin, *The Growth of a Central Bank* (1951), pp. 324-6.

Evatt[6] as Leader of the Australian Mission were able to reach general agreement on the proposed American-Australian exchange of Notes which included the main safeguards the Government wanted. But immediately after this discussion the State Department (with the apparent approval of Roosevelt and Cordell Hull, Secretary of State) produced a draft exchange of Notes which expressed Australia's commitment to reciprocal aid in the widest possible terms and without any recognition of the Acheson-Evatt dialogue. The immediate reaction in Canberra was one of despair and there was even some talk about the cancellation of the present negotiations in favour of a separate Australian-United States master agreement along the lines of the Mutual Aid Agreement. However, when tempers had cooled and the United Kingdom had expressed strong disapproval of any separate agreement which might prejudice the post-war negotiating strength of the Empire as a whole, the Government began afresh in July.

On this occasion the going was much easier. The State Department was still inclined to use phrases which were too general and loosely worded for Canberra's liking, while the Americans thought that the Australian approach was too legalistic and did not provide for sufficient flexibility in a continually changing war situation. Canberra's main difficulty with the United States draft was still the open-ended nature of reciprocal aid, and at War Cabinet's insistence aid was limited to United States forces within Australia and her territories (subject to reconsideration as circumstances changed) and that each Government retain the right of final decision.[7] The Americans accepted these points and the two countries exchanged Notes on 3rd September 1942. The Notes acknowledged the Mutual Aid Agreement as the master agreement and outlined the following broad principles for the supply of reciprocal aid:

> It is the understanding of the Government of the Commonwealth of Australia that the principle to be followed in providing such aid is that the war production and war resources of both nations should be used by the armed forces of each, in the ways which most effectively utilise available materials, manpower, production facilities and shipping space . . .
>
> While each Government retains the right of final decision, in the light of its own potentialities and responsibilities, decisions as to the most effective use of resources, shall as far as possible, be made in common pursuant to common plans for winning the war.
>
> As to financing the provision of such aid . . . the general principles to be applied, to the point at which the common war effort is most effective, is that as large a portion as possible of the articles and services which each Government may authorise to be provided to the other shall be in the form of reciprocal aid, so that the need of each Government for the currency of the other may be reduced to a minimum.[8]

The Note specifically limited reciprocal aid "to the armed forces of the United States of America *in Australia or its Territories* and in other such

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[6] Rt Hon H. V. Evatt. MLA NSW 1925-30. Justice of High Ct of Aust 1930-40; MHR 1940-60; Att-Gen and Min for Ext Affairs 1941-49; Chief Justice of NSW 1960-62. B. East Maitland, NSW, 30 Apr 1894. Died 2 Nov 1965.

[7] War Cabinet Minute 2339, 31 Aug 1942, and War Cabinet Agendum 364/1942.

[8] Full text of the Notes in *Report to the 78th Congress on Lend-Lease Operations* (Washington 1943), pp. 78-80; also *Current Notes on International Relations*, Vol. 13, No. 3.

cases as may be determined by common agreement in the light of the development of the war" (authors' italics).

The exchange of Notes did not however significantly alter reciprocal aid policy or practice. It is true that the Australian Note clarified the question of "eligibility", for the following were specified as being within the ambit of reciprocal aid:

1. Military equipment, ammunition and military and naval stores.
2. Other supplies, materials, facilities and services for the United States forces, except for the pay and allowances of such forces, administrative expenses and such local purchases as its official establishments may make other than through the official establishments of the Australian Government . . . .
3. Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in Australia and in such other places as may be determined, except for the wages and salaries of United States citizens.[9]

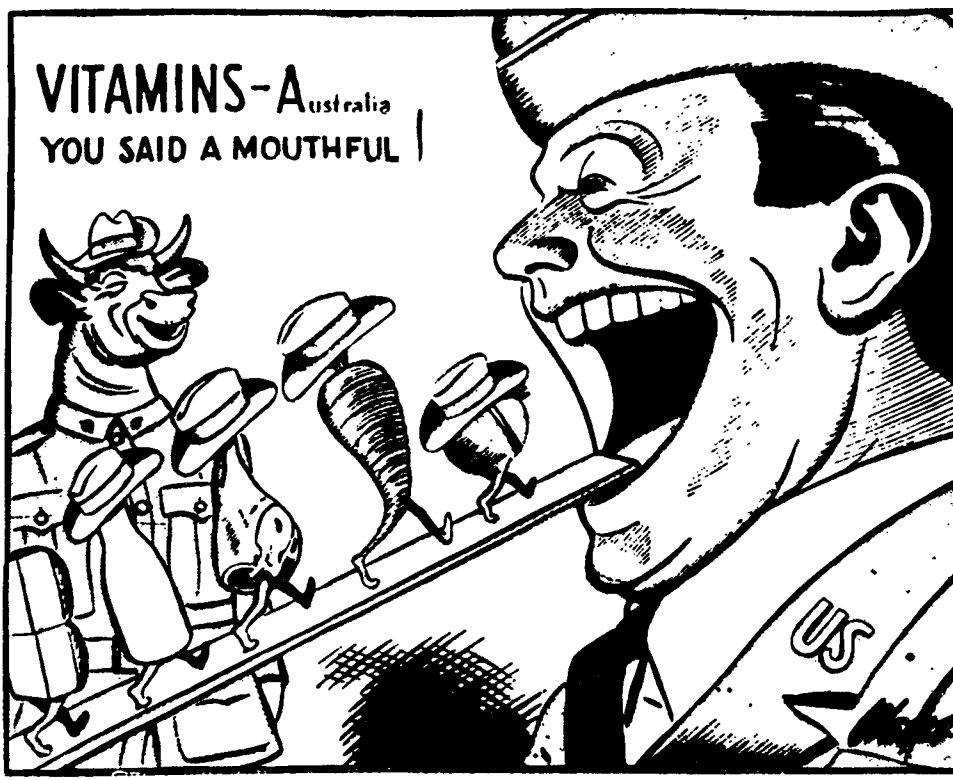
Australia provided the following range of goods and services: a full ration (including camp expenses, camp stores, hospital treatment and transport up to the Australian ration standard), uniforms (and Quartermaster's stores generally), motor vehicles, petrol, tyres, engineers' stores, building materials, small ships, naval stores, telegraphic and telephonic materials, ammunition, weapons, medical supplies and equipment, messing equipment, accommodation, general services (such as meteorology, radio location for flying and technical training), ship repairs, towage, servicing and repair of vehicles and aircraft, repair of boots, shipping, communications and general transport. The following were ineligible for reciprocal aid: pay and allowances of the United States forces, pay of labour directly employed in the United States authorities, rental of living accommodation except for operational headquarters, services or supplies not of a standard or character which would normally be approved for Australian forces, purchases of services arranged directly by the United States authorities, small demands where the administrative work was judged to be out of proportion to the benefits to the United States, and goods and services involving Australia in the expenditure of dollars or sterling.

But from about mid-1942 "eligibility" was less important than Australia's physical capacity to supply, for reciprocal aid was already imposing a heavy burden on Australian resources and the prospects were that the burden would continue to grow rapidly. Thus, no doubt encouraged by what one Australian official described as the OLLA practice of submitting Australian requisitions "to a scrutiny, which for thoroughness and severity surpasses anything since the Spanish Inquisition", the Division of Import Procurement issued a series of "Reverse Lend-Lease Circulars" designed *inter alia* to determine "reasonableness [of requisitions] in relation to strength of forces being supplied", to curb "indications of extravagance", and to emphasise the need for the co-ordination of Australian and American requisitions.

Sensitivity about the rising reciprocal aid burden was also reflected

[9] *Report to the 78th Congress on Lend-Lease Operations*, p. 79.

THE NEW EMBARKATION LINE



Australia's food production and processing resources are being mobilised to feed all the U.S. Forces in the South Pacific.

Wells in Herald *(Melbourne), 6 Mar 1943.*

by some dissatisfaction about the absence of a mutual aid scheme within the British Empire. Because the United States considered that lend-lease was for the benefit of the Empire as a whole and reciprocal aid from the Empire as a whole, there was an exaggerated belief within the Division of Import Procurement that most of the benefits were derived by the United Kingdom and most of the costs incurred by Australia, India and New Zealand. What rankled most was that Australia was required to pay freight on imports from the United Kingdom some of which were transported in ships supplied to Britain under lend-lease. The inequity appeared to be compounded when petroleum was imported in lend-lease ships and then supplied to the United States as reciprocal aid. Justified as some of the complaints were, it was soon apparent that any comprehensive scheme of Empire mutual aid was neither politically nor economically practical.[1] It was also unlikely that a special United Kingdom-Australia agreement along the lines of the Mutual Aid Agreement would be to Australia's advantage, for as G. W. Paton[2] pointed out in February 1943 Australia would lose the cash value of wool and other exports and, despite compensating advantages, might not be in a position to service her overseas indebtedness.[3] The matter was not therefore pursued, but below ministerial level the feeling lingered that an adjustment of the reciprocal aid burden between the United Kingdom and Australia was warranted.

But Australia's concern about the rapid growth in reciprocal aid—part of which merely reflected a sense of isolation from the mainstream of mutual aid decision-making—should not obscure the fact that, in general, Australian-United States mutual aid grew rapidly and effectively during 1942 with a remarkable absence of friction and a predominance of goodwill on both sides. In view of the complexity and scale of mutual aid, one would have expected much more misunderstanding, confusion and frustration than did occur. By the end of 1942 lend-lease was adding about seven per cent to Australian domestic supply of goods and services, while reciprocal aid absorbed about five per cent of Australian domestic production of goods and services. The problems associated with the introduction of mutual aid were insignificant compared with this achievement; they were also insignificant compared with the far more delicate situation that emerged in 1943, as discussed in a subsequent chapter.

[1] The main difficulty was that each Dominion was in a very different economic and military situation, and there was no real prospect of reconciling these differences for the purpose of constructing a meaningful system of "Empire-sharing". Canada was in a special position and made her own arrangements to assist the Empire through two billion dollar gifts to the United Kingdom. (Other Dominions were expected to share in the second of these gifts.) South Africa provided virtually no reciprocal aid and would not have been interested in Australia's difficulties. And New Zealand was already providing as much as she could—perhaps even more, relatively, than Australia.

[2] Sir George Paton, Prof of Jurisprudence, University of Melbourne 1931-51, Vice-Chancellor 1951-68. B. Geelong, Vic, 16 Aug 1902.

[3] Paton Report, Appendix B, pp. 22-3.

CHAPTER 6

ALLIED WORKS

THE role of the Administrative Planning Committee in providing some organisation, urgently needed in the closing days of 1941, to deal with American needs for supplies, accommodation, works and the like, has been noted earlier in discussions of supply, and of the subsequent creation of the Allied Supply Council.[1] The Administrative Planning Committee had been attached to the Joint Chiefs of Staff

> to examine the requests being put forward by the Americans and to direct them into the machinery already existing for the Australian defence services. Its function is a facilitating one and it will not in any way infringe the sovereignty of any department. Its duty will be to assist the Americans in obtaining through the appropriate departments as speedily as possible the fulfilment of their needs.[2]

The Committee went promptly to work and the organisation chart in its first report indicated its view of its range of operations. Sub-committees were established for Works, Movement, Quartering, Service Supply, Hospitals. But, as has been seen, the organisation was to have a very brief life. Its role as a channel of communication would in any case have been a difficult one if only because, throughout the war, the Americans were prone to disregard established procedures and to solve immediate problems by direct approach to the department or the business firm which appeared to be the relevant one for immediate action. Moreover the wide range of American-Australian contact, as it developed, called for a multiplicity of organisations with specific functions rather than for a single co-ordinating body.

Very early, as has been seen, the Committee's responsibility for supply disappeared with the creation of the Allied Supply Council. Functions involving close liaison between the Americans and the Australian Army naturally led to direct action. Thus by the end of March the Department of the Army had set up a special hiring section to deal solely with American requirements for accommodation, storage, etc.; minor works (defined as those costing less than £5,000) for the Americans were handled without reference to the Committee. With the creation of the Allied Works Council the Committee (or rather its Works Priorities sub-committee) had little left to do except to advise on priorities for urgent works. Complaint to War Cabinet in March that departments were ignoring the Committee produced no response and it lapsed at the end of April, its duty of advising on priorities for works passing to a reconstituted Works Priorities Sub-Committee of the Chiefs of Staff Committee, and its other reduced functions to similar committees.

In retrospect, it appears that the Committee had done useful work as an interim co-ordinating body and was displaced because, as the nature

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[1] See Chapter 4.

[2] War Cabinet Minute 1693, 13 Jan 1942. The Committee had been created by War Cabinet on 5 Jan. See also Hasluck, *The Government and the People 1942-1945*, pp. 231-7 and p. 751.

of Australian-American co-operation became clear, other more numerous and diverse co-ordinating bodies were needed. It does not seem however that its members consciously saw its mid-wife role and actively promoted the organisations which made its further existence unnecessary.

Prior to the war the Department of the Interior was the chief authority for the construction of Commonwealth works. As part of pre-war preparations and in response to Defence Department works programmes a section of Interior was created in Melbourne to maintain liaison with that department, and a Works Directorate was established in Papua, at Port Moresby. After war began the Director-General of Works, C. A. Hoy,[3] and his senior staff moved to Melbourne to ensure close contact with Service departments. In December 1941 a Directorate of Works was set up in Melbourne and similar organisations were spread throughout the States, designed to enlist the services of State construction authorities. (The Department of the Interior had shortly before absorbed the activities of the Works Directorate of the Department of Air.)

The Australian Services had not developed extensive works organisations and their engineer, bridging, electrical and mechanical units were not integrated and were thought of as concerned primarily with engineering activities directly associated with fighting operations. In the urgent days after December 1941 their range of activities extended, although not being as well equipped as their American counterparts they were used mainly on road and port construction. The Air Force from April 1942 began to organise its own airfield construction units in northern Australia and New Guinea. But generally the earlier pattern remained: it was assumed that works outside battle areas would normally be constructed by civilian organisations. The Air Force organisation for instance had grown only to 2,700 men by the end of 1942.

The first American troops diverted from the Philippines arrived in Brisbane on 22nd December 1941 and these and other contingents which arrived shortly after included some engineer units. From early February onwards further such units arrived and were mostly despatched to what was seen as the most pressing need: the construction of airfields and associated works in the far north. With the creation of the South-West Pacific Area in April an engineer section of General MacArthur's Headquarters was organised under Brigadier-General Hugh J. Casey. But despite their more elaborate organisation and greater equipment than the Australian Services the Americans could not find men and equipment nor the ships to bring them on a scale commensurate with the far-ranging works which were urgently demanded. The relevant American forces in Australia by June 1942 numbered only 7,600 officers and other ranks.

In the feverish days of late December and early January 1942 the Americans evolved schemes for importing Javanese and other coloured labour to be used, with such minimal equipment as was available, on the

[3] C. A. Hoy, Works Director for NSW 1935-38; Director-General of Works, Dept of Interior 1939-42; Asst Director-General Allied Works 1942-45; Dept of Works and Housing 1945-51. B. Sydney, 19 Aug 1888.

most pressing works for the defence of northern Australia. The Government hesitantly agreed, but the onward rush of the Japanese made execution of the plan impossible, while over the following weeks it appeared less likely that invasion, if it came, would be directly from Java to the Northern Territory.

It was apparent therefore that main reliance by both Australian and American forces for construction work outside operational areas must be on Australian civil resources, and that clear distinction between "Australian" and "American" works would often be impossible and rarely desirable. Moreover it was obvious that the chief construction authorities with experience in the types of work most required were government and semi-government ones, in the States rather than under direct Commonwealth control. The immediate problem therefore was to create, at high speed, machinery to organise the use of these already existing construction authorities. The answer was the Allied Works Council, the name indicating the original conception of the Council, as concerned with works required by the Americans or jointly by American and Australian Services.

On 15th February 1942 the day Singapore capitulated, Curtin asked E. G. Theodore to accept appointment as Director-General of Allied Works, formally responsible to the Minister for the Interior, but with direct access to himself as Prime Minister. Theodore was exceptionally well-qualified for a post in which technical expertise in construction was unimportant. His earlier career as a trade union organiser gave him an acceptability to unions and an appreciation of the problems involved in organising the deployment of large numbers of workers. His service in Parliament in Queensland and in the Commonwealth Parliament gave perspective to his approach to the task of using State instrumentalities for national purposes. His business success testified to his skill in planning and management, and his whole record, not least his short service as Treasurer in the Scullin Labor Government, testified to his ability to think large and to encounter the unorthodox critically but receptively.[4]

Theodore's central function was the execution of works according to the priorities decided by the Administrative Planning Committee and subsequently the Works Priorities sub-committee of the Chiefs of Staff Committee. He was to be chairman of an Allied Works Council of which the other members were C. A. Hoy, Director-General of Works in the Department of the Interior and a nominee of the United States Commander-in-Chief in Australia, the first being Brigadier-General Dwight F. Johns. Stress was placed on using established organisations rather than the creation of a new integrated one.

> The Council is to work in close collaboration with Commonwealth departments and instrumentalities charged with responsibility for the control of manpower, materials and equipment. With a view to assisting in solving manpower problems the Department of Labour and National Service will be linked with the Council and the Minister of that Department will nominate a Liaison Officer for the purpose. In addition the Council will require to co-ordinate its efforts with other Common-

[4] The short biography by Irwin Young, *Theodore, His Life and Times* (1971) is a useful but inadequate account.



Milk Production is Australia's most urgent food supply problem

AUSTRALIA is not producing enough milk. Unless production can be maintained, we may be unable to send the 47,000 tons of butter which the people of Britain need to maintain their 2 ozs. a week ration (compared with our own 6 ozs. a week): to supply the thousands of tons of butter, processed milk, and cheese required by the fighting services in the Pacific and elsewhere. Finally, a shortage of supplies essential to our own people might be threatened.

The Dairy Farmer, in short, is as important as any other war worker in Australia to-day. The need to maintain *your* production is urgent, and the Government has approved many measures to help you to do so. Your local War Agricultural Committee or Butter Factory Manager will also help you — see them for any information or advice you need.

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wealth authorities charged with the implementation of works for Australian defence and war purposes and to make the fullest use of existing Government machinery for arranging contracts and procuring supplies.[5]

Comprehensive powers were conferred on Theodore by the Allied Works Regulations:[6]

The Director-General shall have the direction and control of the following matters:
(a) The carrying out of works of whatever nature required for war purposes by Allied Forces in Australia;
(b) The securing of supplies of materials, plant, tools and equipment for the purposes of such works;
(c) The employment of technicians, workmen, and others for the purposes of such works, and the transport, accommodation and provisioning of such workmen and others.

In the exercise of his functions under these Regulations the Director-General may, on behalf of the Commonwealth and subject to any directions of the Minister:
(a) make and vary contracts or agreements;
(b) employ such persons as are necessary;
(c) direct any contractor with the Commonwealth, or any person sub-contracting with such a contractor, as to the manner of carrying out the work for which he was contracted or sub-contracted;
(d) requisition or compulsorily acquire any property (other than land) including exclusive rights or licences and privileges;
(e) acquire by purchasing any goods or chattels or things in action (including rights in relation to inventions); and
(f) sell or otherwise dispose of, turn to account or write off property held in connection with the carrying out of works.

He was, moreover, authorised to determine conditions of employment for all Council employees. In addition the Prime Minister's letter authorised Theodore to spend up to a total of £250,000 (at any one time) without waiting for normal approval.

These powers, it should be noted, were conferred on Theodore, not on the Council, whose other members had such functions as Theodore might choose to delegate to them. The Council indeed existed only by executive decision and its chief functions were to provide Theodore with advice and, by the positions members held, facilitate co-ordination.

The Council met for the first time in Melbourne on 28th February and thereafter daily until the maturing of its administrative structure enabled it to adopt weekly meetings. As this took shape, the central organisation included an administrative division and directorates for personnel, mechanical equipment and materials supply, finance and works. In May, as the concentration of works became defined, Deputy Directors-General were appointed for Queensland and New South Wales and, later, Northern Territory; officers of lesser rank sufficed elsewhere. Liaison with the Departments of Labour and National Service and of War Organisation of Industry was sought at the first meeting. At the next, steps were taken to purchase, if necessary by impressment, equipment and plant. For works

[5] Curtin to Theodore, 25 Feb 1942.
[6] Statutory Rules 1942 No. 88, 26 Feb.

by private contractors a standard cost-plus-fixed-fee agreement was adopted. Plans for decentralised stockpiles of materials were developed.

Within the first two weeks the Victorian and New South Wales Governments were asked to appoint co-ordinating authorities. This was recognition of a central fact which must always be borne in mind: the States and their semi-government instrumentalities had in being some of the major construction units in the country and much of the Council's activity consisted in arranging for these bodies to carry out works. In Victoria, for example, there were the Country Roads Board, the State Railways, Water Supply Commission, Melbourne Sewerage Board, Electricity Commission and the like. The massive airfield and aircraft repair and assembly depot at Tocumwal in southern New South Wales involved work by the New South Wales Main Roads Board, Irrigation Commission, the Railways and the Public Works department. The Sydney graving dock had been initiated in 1940 with the Department of the Interior responsible for construction, but with major parts of the work carried out by the New South Wales Maritime Services Board, Sydney Water Board, the Public Works department, as well as others. Such co-operation antedated the Allied Works Council. Thus the Tennant Creek to Larrimah road in the Northern Territory was the joint work, in 1940, of the New South Wales Main Roads Board, Queensland Main Roads Commission and the South Australian Highways Commission. Such activities, often far from the home State of the constructing authority, continued and expanded under the Allied Works Council, but inevitably the Council's name rather than that of the operative organisation tended to be attached to the project.

LABOUR FOR THE ALLIED WORKS COUNCIL

In the context of overall supplies of manpower for the war effort discussion occurred in an earlier chapter of labour for the Allied Works Council;[7] it is now desirable to cover this in more detail. From the outset it was clear that the labour required for construction commitments, already vast and certain to expand rapidly, could not be found by voluntary methods, even if other authorities, notably Manpower and the Army, had been prepared to tolerate indiscriminate recruitment. Predominantly the men were required for work which would be arduous even when skill was involved, and much of which would be in remote areas with primitive living conditions or in tropical areas. These were clearly demands competitive with those of the Army, of rural work, and of much essential industry, and even if these demands could be co-ordinated, it could not be expected that volunteers would be found in sufficient numbers from those who would not be required elsewhere.

Theodore, at the first meeting of the Council, foreshadowed a proposal to form works battalions which he proposed to discuss with Curtin. These he thought of as enlisted in army formations but controlled by the Allied Works Council and receiving civilian rates of pay. But there was opposition to army enlistment and some fears of the rather wide-ranging ideas

[7] See Chapter 2.

Theodore expressed which contemplated in effect that the principle might extend eventually to all "essential" employment. Conferences of interested parties discussed a competing proposal from War Organisation of Industry for a civil labour corps under its control, and Theodore's labour corps enlisted in the Army but controlled by the Allied Works Council, the latter solution being preferred by the majority.

But War Cabinet adopted, in essentials, a new proposal by Theodore when it decided, on 9th March:[8]

(i) A civilian labour corps is to be established from persons called up under military impressment. Service will be compulsory on the same lines as the military forces.

(ii) The Corps will be organised as a labour force under the control and direction of the Director-General of Allied Works provided, however, that it may be brought under military control and discipline in an emergency.

(iii) The employment of the Corps is to be restricted to works undertaken by the Allied Works Council. The construction gangs already employed on such works in Queensland are to be absorbed into the Corps.

(iv) Members of the Corps will receive pay based on civil award rates in accordance with the principles observed for persons already employed on Allied Works in Queensland.

(v) In the fixation of rates regard is to be had to award conditions governing: (a) deductions for rations and other issues in kind; and (b) living-away allowances.

(vi) Personnel of the Labour Corps are to remain members of and continue to pay contributions to the unions to which they belong at present.

(vii) Existing rights of employees, such as the right to contribute to a Provident Fund applicable to their present employment are to be preserved on their transfer to the Labour Corps.

(viii) The adoption of civilian rates of pay for the Labour Corps is approved on the distinct understanding that no Army entitlements such as sick leave, dependants' allowances and repatriation benefits will apply.

Clause (iii) reassured those alarmed by Theodore's more comprehensive ideas; clauses (iv) to (vii) were reassurance to trade unions, strongly represented in Cabinet; while (viii) fairly enough, ensured that those to whom civilian conditions of employment were guaranteed should not also enjoy special army advantages which compensated to some extent for lower rates of pay.

There remained difficulties to be ironed out. The Cabinet reluctantly conceded to Theodore the right to initiate prosecution of offenders against discipline. More serious was the need to co-ordinate compulsory service on Allied works with overall manpower control. Theodore reasonably enough wanted the call-up to be comprehensive, and formally he achieved his purpose, since the liability to service extended to men between eighteen and sixty, except for members of Australian and Allied forces, diplomatic and consular staffs, and men in protected industries or undertakings. It would thus include, for instance, friendly as well as enemy aliens. But interpreted literally it would also involve a conflict with the Manpower Directorate's allocation of men, particularly the younger age groups, to the Army or essential industry. The solution, adopted only after stiff

[8] War Cabinet Minute 1955; Agendum 134/1942. It may be noted that E. J. Ward, Minister for Labour and National Service, was present at this meeting.

exchanges between Wurth and Theodore was that Theodore should call up only men listed by Manpower as available, but that Manpower was to give Allied Works prior call on men over 45 years (later 35) not in protected employment. On these terms the Civil Constructional Corps was authorised by regulations issued in April.[9]

Enlistment procedures provided for volunteers and many of the early enrolments were at least nominally voluntary, being men "on the job" already employed by private contractors and public construction authorities on work which had now passed under the control of the Council. But in the circumstances the distinction between voluntary and compulsory was not well defined. Compulsory call-up began in Victoria on 4th May, followed by New South Wales in June, Queensland in July, Western and South Australia in September, but in Tasmania not until February 1943. This sequence was dictated by a number of factors. The Council needed time to prepare its organisation to handle units of the Corps; the degree to which volunteers were available depended in high degree on the pressure (as for instance from Munitions in Victoria) on the supply of the relevant classes of men; while the urgency with which works were required and the degree to which they had already been planned varied. Theodore reported that 51,167 men were employed on Council projects at the end of July, an increase of 6,409 since 20th May which could be taken roughly as the date when "on the job" enlistment had been completed. But he also reported that the numbers available of fit men over 45 years had, after the first large enlistment, proved disappointing. Only 1,200 had been secured in June-July. As a result the Manpower Directorate had agreed to make available married men down to age 35.

Over the next three months, however, total numbers did not grow greatly, recruitment doing little more than offset wastage, which was high because of the average age of men employed. At the end of October men employed totalled 52,645.[1] The importance in the whole programme of State government construction authorities is indicated by the fact that more than 33,000 were engaged on works handled by these authorities. The concentration of works in three States is shown by employment of 20,000 in New South Wales, 14,000 in Queensland and 7,500 in Victoria.

The planned use of aliens involved special problems. Aliens Service regulations in February 1942 provided for the compulsory call-up for non-military service of aliens other than those enlisted in any British force, diplomatic and consular staff, aircraft and ships' crew, prisoners of war and internees and refugees. Later enemy aliens other than refugees were included.[2] These later regulations made those not exempt from service available to the Council. A year later aliens were formally organised as the Civil Aliens Corps.[3]

But numbers were disappointing, rising from 730 in September 1943

[9] Amendments to Allied Works Regulations, Statutory Rules 1942 No. 170, 14 Apr.

[1] Peak strength in Aug 1943 was little higher at 53,859.

[2] Aliens Service Regulations, Statutory Rules 1942 No. 39, 3 Feb, amended by Statutory Rules 1942 No. 86, 25 Feb.

[3] Statutory Rules 1943 No. 108, 3 May.

to a peak of just under 1,400 in April 1944. The smallness of this contribution is indicated by figures of total enrolments in the Civil Constructional Corps. (These figures are net enrolments and include those not at work for sickness or other reasons, a number which was often as high as one-fifth of the total.)

30th September 1943	42,708
23rd December 1943	37,614
30th March 1944	32,018
22nd June 1944	26,976
28th September 1944	21,780
21st December 1944	20,993
29th March 1945	21,216
7th June 1945	21,128

The aliens were predominantly on maintenance of inland railways, construction and maintenance of roads, production of firewood and charcoal, and mining.

While many men in the Civil Constructional Corps could be employed in their home States, the location of much of the work required that the Council become involved in housing and feeding and providing medical attention and amenities for large and small groups of men in camps scattered through, for example, the Northern Territory and Queensland. One of the earliest major jobs was, for instance, 500 miles of strategic road through sparsely settled areas of tropical Queensland. The Personnel Directorate of the Council, which added all these activities to its recruitment and employment functions, became therefore the key section; indeed, given the reliance on State and other construction authorities for planning and execution of works, it was as a supplier of labour that the Council had its central function.

The Regulations of April 1942 provided that

> In determining the terms and conditions of service of members of the Corps the Director-General shall, so far as practicable, have regard to the terms of any award, order or determination of an industrial tribunal, or any industrial agreement, which is applicable to employees engaged on similar work (including terms relating to deductions for the supply of rations and other issues in kind, and to allowances payable to employees living away from home).

In practice this meant that at the outset on most jobs rates of pay conformed to the awards of the State in which the work was located.

But fixing of wages and other conditions of service on a State basis was quite inappropriate when, as necessarily happened, members of the Corps were moved interstate. The issue was raised sharply when large numbers of men were moved from New South Wales to Queensland for road work. Theodore's determinations for Queensland, New South Wales and Victoria contained many more common conditions, but there were also many differences in rates of pay, margins for skill and other matters. In particular, rates of pay were higher in New South Wales than in Queensland, but men moved north from New South Wales were thereupon subject to Queensland rates. Having no choice as to where they worked they were naturally discontented but the solution was not obvious. If, while

in Queensland, they continued to receive New South Wales rates of pay, members of the Corps who were engaged on the same project would have a legitimate grievance, while if they, too, received New South Wales rates, other Queensland members would reasonably press for similar terms. A proposal that New South Wales men should receive a special allowance was no better solution since it was a thinly disguised way of paying them, while in Queensland, New South Wales rates. The Commonwealth Attorney-General referred the problem to the Commonwealth Arbitration Court.

Judge O'Mara, with some justification, refused to give a ruling, at the same time indicating plainly that the proper solution was a single award applying to all members of the Corps, wherever they might be working. After reviewing the many anomalies, even within each State determination, and indicating the confusion which would arise from any attempt to graft those of one State on to those of another he concluded:

> . . . I intend to inform the Attorney-General that in my opinion it is impracticable to deal properly with the position of inter-state transferees and at the same time maintain three different codes, and that consideration might be given to codifying the present determination with such alterations and adjustments as may be considered necessary to regulate a national work on a national basis. Under existing law the formulation and promulgation of such a code is not a matter for the Court but upon one matter I consider it to be my duty to express an opinion. Classifications and margins particularly in the labouring group could in my opinion be simplified with advantage to the Government and the members of the Corps. Present classifications are unnecessarily detailed and in many cases are not appropriate to modern plant and modern methods. Under one section of the New South Wales code there is a detailed classification and the difference between the work values of the various grades has been measured at ¼d per hour with the obligation to account for each hour. For example there are ten classifications of concrete workers, four at one rate and six at a rate ¼d per hour higher and much the same state of affairs exists in other sections. This is a ridiculous state of affairs in relation to the circumstances of the Corps and an attempt should be made to simplify the classifications by rolling a number of classifications into one and prescribing a flat rate margin to cover the whole range of work involved. This would involve an increase in the base rate and possibly a substantial one but it should be well worth while from the point of view of supervision, administration, timekeeping and costing.[4]

This view was obvious good sense; it was welcome to the Council not only because it promised simplification of procedure, but, more importantly, would relieve the Director-General of the responsibility for prescribing pay and conditions of employment; the unions, which had welcomed the original State basis of determinations while most members were employed south of Queensland, wished to see the end of a system which now threatened lower rates for large numbers of Corps members transferred to Queensland. It was not surprising therefore that within ten days the Allied Works Regulations were amended to transfer decision on wages and conditions of work to the Arbitration Court.

When the matter of a national award for the Corps was before Judge O'Mara he was so surprised with the unfavourable position of gangers, labourers and plant operators under the Queensland determination that he

[4] *Commonwealth Arbitration Reports*, Vol 48, pp. 328-32, 29 Sep 1942.

made an interim award to bring their wages into line with those prevailing for similar groups in the Corps. The general award was delivered in March 1943.[5] It provided a minimum wage of £5.10s for a week of 44 hours and for various higher rates for specified jobs. These rates were applicable irrespective of the locality in which work was performed and were explicitly based upon, but somewhat higher than, existing awards for workers who were not members of the Corps but were doing similar work. Henceforth this award was the benchmark for all subsequent decisions.

EQUIPMENT AND MATERIALS

Second in importance to the Council's problem of labour supply was the need for a large volume of equipment, especially of earth-moving machinery. Much was readily available in the possession of State construction authorities and more could be drawn from this source. But the need was far greater and the Council impressed many tractors and other items of equipment, leading it into disputes with the Army which in turn was accused of impressing trucks engaged on Council works.[6] Much of the impressed equipment however was not of a type really suitable for the heavy work involved, and the Council joined other seekers of American equipment under Lend-Lease, with, relatively, good success in having its needs met not merely because much of its activity was directly for American forces but because the building of aerodromes, strategic roads, military hospitals, port facilities and the like in forward northern areas had an obvious and identifiable relationship to active operations. Presently from this source, and from local production of specialised equipment through Munitions, the Council had at its disposal equipment, especially earth-moving equipment, capable of handling works which required earth-moving on a scale and at a speed new to Australia.

One minor but important activity of the Personnel Directorate was the training of men to handle and repair the large quantities of earth-moving and road-making equipment and vehicles required for the various projects. Men with such skill were scarce everywhere but especially so in the many remote areas where the Council operated. From time to time the armed services, especially the Air Force in the Northern Territory and Queensland, came to the rescue by lending their mechanics but the Council had to abandon plans to seek release of men to it in the face of the Army's clear unwillingness.[7] Accordingly two training schools were established, one at Maribyrnong in Victoria to train truck drivers and motor mechanics, the other, at Rydalmere, New South Wales, to train men in the maintenance of a wide variety of earth-moving equipment. The latter was so successful that the armed services sought access to it, and in the end two-thirds of its trainees were for the Australian forces and the American Army, which sent one group from as far afield as Burma.

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[5] *Commonwealth Arbitration Reports*, Vol. 51, pp. 382-5, 4 Dec 1942, for interim award; pp. 385-402, 5 Mar 1943, for general award which formally applied to Victoria, New South Wales, Queensland and Northern Territory, but was immediately extended to South Australia.

[6] Allied Works Council Minutes, 28 May 1942.

[7] Allied Works Council Minutes, 15 Oct 1942.

Difficulties in obtaining materials were a recurrent problem. Steel for reinforced concrete and for lining inland concrete bulk storage tanks for liquid fuel for instance was scarce in early 1942; to be succeeded by bitumen for road surfacing and aerodrome runways, a matter of critical importance in tropical areas subject to the monsoon. Supplies of bitumen from Trinidad were arranged by the Division of Import Procurement and the Americans were persuaded to make available cargo space in troop ships. The Council also developed advanced techniques for prefabricating timber buildings for various purposes, a procedure hitherto little used in Australia. Timber of all kinds was in short supply, and the Council sought to economise by using in remote areas rough bush timber for structures expected to have a very short life. They had less success in persuading Americans to accept reduced standards and, for example, complained that the American Army insisted on prefabricated timber structures for small temporary hospitals in advanced areas where the Australian army found tents, more easily transferred and reusable, quite satisfactory.

By early 1943 emphasis had shifted from availability of materials (although these were intermittent problems) to their transport. In October 1942 supplies of bitumen were deemed adequate but ships were not available to carry it to Western Australia and to the Northern Territory where the Army rightly attached great importance to sealing the main north-south road there before the next wet season. In June 1943 the Council gloomily estimated that its materials problem would restrict urgent work in the Northern Territory, mainly in and near Darwin, for the rest of the year to barely one-fifth of what would otherwise be possible because materials already held could not be moved there. In the event, however, with the help of the Shipping Control Board and Army assistance with road transport the deficit was much less.

Indeed this period—mid-1943—was to appear in retrospect as nearly the peak of the Council's commitments and activities. Many works, especially those of a non-military nature, such as wool stores, had been completed in the south where labour, materials and transport constraints were less acute. Moreover as progressively the review of war commitments required by Cabinet began to operate with some effectiveness the Services were prepared to cancel or reduce works in the south which in the shadow of threatened invasion in 1942 had appeared vital but a year later were clearly of much less importance or even no longer required. Thus Tocumwal air base on the New South Wales-Victoria border, planned in the darkest days at the beginning of 1942, had clearly been developed beyond any foreseeable use after mid-1943. Seen as the most southerly of a series of mainland bases with repair and maintenance facilities to meet the needs of more advanced operational bases in the event of invasion it was rational and even urgently necessary when planned and begun, but fortunately never had to serve the main purpose for which it was designed.

Following the preliminary organisation of the Council's structure, and the disappearance of the Administrative Planning Committee, formal

lines of authority were laid down. Final authority for allocating priorities for works was to rest with the Chiefs of Staff Committee or, in practice, with its Priorities Sub-committee on which the United States Forces in Australia, Munitions, the Allied Works Council and Department of Supply were represented. It was clearly stated that this should include "Allied" works, that is work for the Americans who should not seek to operate independently.[8] Any department seeking other than very minor work was to present its case to the sub-committee. In due course authority to proceed with the work according to its priority rating passed to the Council.[9]

As has been noted the Council relied on existing governmental (mainly State) construction authorities and on private contractors for much actual construction. A standard form of agreement for work to be carried out by private enterprise was settled in March 1942 and the Council accepted the inevitable that its contracts would have to be on a cost-plus basis since from the nature of works contemplated there were too many unpredictable factors for any other terms to be acceptable.[1] A year later when many of the more urgent works had been completed and the urgency, especially in southern areas, had diminished, the Council was able to initiate progressive return to competitive tendering in place of cost-plus contracts initially in the south.[2] But in the north and especially for works connected with warlike operations urgency continued and overall the major part of the Council's construction was on a cost-plus basis.

The range of these works was very wide. For Munitions and Aircraft Production the Council built factories and annexes, railway sidings and workers' hostels. For the Australian and United States armies there were camps, huts, workshops, stores, mobile hospitals and a host of other types of buildings. Roads, especially inland roads of strategic importance, bulked large. (A total of over 4,600 miles were built or recommended.) Among the more important were: the north-south road from Alice Springs to Darwin, over 954 miles, partly new construction, partly major reconstruction and sealing of a road of poor quality; and the Mount Isa to Tennant Creek road in Queensland, over 403 miles. For the Army as well there were sections of railway, bridges, gun emplacements, and the like.

For the Navy the most important single project was completion of the graving dock at Sydney, but there was also major construction of berthing and cargo handling facilities in Darwin, Cairns, Townsville, Brisbane and Fremantle. In Darwin completion of a jetty initiated by the Army was the Council's first work in the Northern Territory.

For the Air Forces construction of aerodromes took a central place.

[8] They continued, however, to be a problem. As late as October 1942 the Prime Minister's intervention had to be sought to prevent persistent independent action, including presenting requisitions to the Council before they had been allocated a priority rating, even before the authority for executing the work had been obtained.

[9] These procedures were laid down by War Cabinet Minute 2038, 19 Mar 1942, and noted in Chiefs of Staff Committee Minutes 22 Mar. The rules had been formulated at conferences of the authorities most directly concerned on 13 and 16 Mar.

[1] Allied Works Council Minutes 19 Mar 1942. A week later the Council prescribed that in its cost-plus contracts any fees expressed as percentages should be based on standard and not overtime rates of pay.

[2] The initiative came from a meeting of executives of the Allied Works Council, 22-23 Nov 1943, reviewing the future programme and policies of the Council as they then could be foreseen.

The needs of the United States Army Air Corps alone required some 300 fields ranging from small emergency landing or staging grounds to the massive repair and assembly depot at Tocumwal. Bulk fuel storage, pipelines, hangars, powerhouses and flying boat stations were other Air Force items. For all the Services combined the Council constructed a wide range of camps, stores, hospitals including half a dozen major permanent ones, and a wide miscellany of other works. Wool stores for the Central Wool Committee, factories for the production of clothing, plants for the dehydration of food, water supply facilities, flax mills, broadcasting stations, telephone exchanges were among its other varied works for civilian authorities.

These works were spread all over mainland Australia and, to a lesser extent, Tasmania, with the greatest emphasis on work for the Services in Queensland and the Northern Territory. It had never been intended that civil construction workers should be sent to operational areas, although the Council's performance was so well appreciated that early in 1943 the Services were proposing that its operations be extended to New Guinea, a proposal which Theodore turned by saying that it would require War Cabinet instructions.[3] Some modest amount of work appears to have been done in New Guinea (for the Navy at Milne Bay for instance) but this was a minor deviation from the principle.

THE DIMINISHING NEED FOR THE COUNCIL

From August 1943 the Council itself operated within the constraint of a Cabinet direction that enrolments in the Civil Constructional Corps could not rise further and that new enlistments had to be limited to replacement of wastage. In fact the remainder of 1943 and the whole of 1944 were to see a steady decline in numbers.

To the manpower constraint were added others, less precise but underlining the changed conditions in which the Council now had to operate. During 1942 it was possible to plead urgency and difficulty of prediction to explain why costs of projects were often different from estimates. But from late 1943 onwards the Treasury, and the Cabinet under Treasury influence, were increasingly critical of the cost of Council works. In November 1943 the Council was discussing Cabinet decisions designed to reduce the volume of work which it did for American forces. Ministers had become increasingly restive at the American assumption that minor works and services, which by Australian standards should be provided by an army for itself, would automatically be undertaken by the Council. They were not silenced by MacArthur's expressed unwillingness to restrain those demands. War Cabinet made it clear as 1943 neared its end that not only works but supplies of food, goods and services for the Americans would in future be restricted. In particular works costing more than £5,000 would require ministerial, perhaps War Cabinet, approval.[4]

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[3] Allied Works Council Minutes, 26 Mar 1943.
[4] Allied Works Council Minutes, 18 Nov 1943.

By early 1944 the Council was noting that not only was the scale of its commitments trending downwards, but they had come to be predominantly requirements for buildings. Soon it was arranging the release of men in southern States who did not possess the skills and stamina required for northern areas. Expressed intention was that by mid-1944 the number of men engaged on Council work should be reduced by 11,000, a figure which was very nearly attained,[5] leading State governments and businessmen naively to assume that the men would become available for non-war construction. (The Council relied on the Manpower Directorate to control the reallocation of men released.) From mid-1944 overtime was progressively reduced or eliminated on Council work, ostensibly to reduce costs, but implying also recognition that work was tapering off and much that remained to do if it was indeed still required was no longer very urgent. By September 1944 the Council could note that for the first time it had no shortage of labour in the Northern Territory and record a confident expectation that all major projects there would be completed by the end of the year.[6]

The trend was for a short time reversed in early 1945 when the decision to base substantial units of the British Navy in Australia led to an unexpectedly large accession of requests for work for those forces. But the reversal was only moderate and did not last long. Clearly the Council's functions would continue to be attenuated, especially as by then the American forces had mostly moved north and the Australian army was being reduced and, in MacArthur's planning, its combat role sharply circumscribed.

Already in October 1944 Theodore had taken the view that his task was done, and he had no taste for presiding over the running down of the organisation he had created and directed for two and a half years. He resigned and was succeeded by L. F. Loder.[7] His going cleared the way for the next, logical step. In February 1945 Cabinet resolved, with its eye on post-war reconstruction activities, to create a Department of Works, with Loder as its administrative head; what had been Theodore's title, Director-General of Allied Works became Director-General of Works.

There remained a considerable volume of war-associated work to be completed, but the change truly marked the end of the Council (even if Corps members had to wait for the war to end before they could be released). The smooth almost formal transformation of the *ad hoc* wartime instrumentality into a normal government department went almost unnoticed by the general public, perhaps a final tribute to the skill and tough wisdom with which Theodore had created and directed one of the most successful of Australia's wartime agencies.

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[5] Allied Works Council Minutes, 23 Dec 1943.

[6] Allied Works Council Minutes, 29 Sep 1944.

[7] Sir Louis Loder (1914-18; AFC). Ch Engr Vict Country Roads Bd 1928-40; Chmn 1940-44; Dir-Gen Allied Works 1944-45; Dir-Gen C'wealth Dept of Works 1945-61; Chmn Northern Mining Corp N.L. from 1969. B. Sale, Vic, 30 Dec 1896.

CHAPTER 7

REORGANISING CIVILIAN INDUSTRY

WHEN the Department of War Organisation of Industry was given a new lease of life by the Curtin Government late in 1941, the statement of its planned functions included:

(i) The co-ordination of efforts of various Commonwealth Departments, other than the Departments of Defence Co-ordination, Army, Navy and Air, to ensure that the maximum energies are being devoted to the production of war needs and essential civil requirements; and that there is an appropriate distribution of functions relating to these activities.

(ii) The review of industry generally, on the basis of surveys made and to be made, in order to determine the extent to which it has been harnessed to the war effort, what additional demands are likely to be made upon it, and the measures necessary to meet any expansion required, including plans for the diversion of labour, material and plant from non-essential activities by means of rationing or any other measures that may be necessary.

(iii) The direction of measures for the effective distribution of material and manpower resources and for the more intensive organisation of production to secure the maximum war effort consistent with the provision of minimum essential civil needs, including the control—through existing Commonwealth Departments and other channels—of programmes of production approved by the Production Executive of Cabinet.[1]

As had been recorded in the previous volume, this statement could not be taken too literally as meaning a "super" department with power to review and "co-ordinate" the activities of others in the sense of exercising any power of direction. Co-ordination in practice meant co-operation, persuasion, cajoling and all the arts of inter-departmental politics in which G. T. Chippindall,[2] the department's head after the first few weeks, was a practised expert. It was helped, in the event, during the initial six months or so in which it established itself, by the readiness of other departments to accept help in the desperate days after Japanese entry into the war. Moreover, while co-ordination could never mean direction, it did provide a charter for the department to take an active interest in almost any matter if it could be shown that the activities of several departments were at variance, and once formally acknowledged as a partner in seeking a solution to problems it could exercise pervasive influence in many, often unrecorded, ways.

The department gained also considerable tactical strength from its special relationship to Production Executive. Its Minister, J. J. Dedman, was chairman of Production Executive and the department provided the secretariat to that body. Not only because of his chairmanship but also because of his close personal association with the Prime Minister, John

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[1] Production Executive Agendum 1/1941, 18 Nov. For the early history of the department see Butlin, *War Economy 1939-1942*.

[2] Sir Giles Chippindall. Ch Inspr Personnel PMG Dept 1934-41; Dir-Gen War Organisn of Industry 1941-45; Secty Dept Supply and Shipping; Chmn C'wealth Disposals Commn; Chmn Aust Shipping Bd; Dir-Gen Posts and Telegraphs 1949-58; Chmn Aust Nat Airlines Comm 1959-66, mbr from 1949; Chmn O'seas Telecommunications Commn 1961-62. B. Melbourne, 29 May 1893.

Curtin, and the Treasurer, J. B. Chifley, Dedman could not be ignored or bypassed by other Ministers. Because of the department's secretariat functions it became aware at an early stage of proposals to Production Executive by other departments, particularly because other departments sought guidance on their presentation.[3] In these ways the department's functions, formally defined so broadly that they were clearly unlikely to be attained, and in practice never were, nevertheless reinforced each other, particularly in the area which came to be labelled rationalisation.

That word came to be used, as the department's deputy head later recorded, "in a sense more closely allied to the continental concept of rationalisation as the exploitation of every possible method of securing greater efficiency in production and distribution, than to the more specialised British concept of rationalisation as a form of industrial combination".[4] The department, with its charter defined in November 1941, lost no time in preparing for endorsement in general terms a programme of what it described as "a nation-wide reorganisation of industry with the help of management and labour in the industries themselves", in which the specific objectives of rationalisation were spelled out:

(a) To devote an increased proportion of labour and plant to war production in all industries which can contribute to the war programme.

(b) To release labour, materials and equipment from non-essential production by:
  (i) reducing the production of non-essential commodities and services;
  (ii) eliminating unnecessary varieties and packaging, wherever these are retaining labour, etc., required for war purposes;
  (iii) rationalising distribution systems wherever this promises economy in manpower and other resources.

(c) To ensure that the necessary adjustments of industry are achieved without conferring special advantages on particular firms or groups of workers at the expense of others, and especially those who devote themselves to the war effort.

(d) To ensure that, in the selection of specific measures to achieve the above objectives, due weight is attached to problems of post-war adjustment.[5]

The reference to "the help of management and labour" was to a scheme for industry committees, with equal number from employers and unions, sitting under the chairmanship of a departmental officer. Under the shock of Japanese attack the Associated Chamber of Manufactures, the Associated Chamber of Commerce, the Central Council of Employers, and the Council of Fire and Accident Underwriters produced a joint patriotic letter to the Prime Minister[6] declaring that "It is fully recognised that the whole future of Australia is at stake, and that industry and commerce, in common with other interests, must be subordinated to the imperative necessity of national defence". The response was a letter from Dedman

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[3] Under Chippindall's guidance a submission to Production Executive came to take a standard form: brief statement of a problem; summary of possible alternative approaches with condensed arguments pro and con; elaboration of the course chosen; a recommendation which, if regulations or orders were involved, was presented in a form of words already cleared with the Attorney-General's Department, so that legislative action could be immediate without *arrière-pensées* as to whether Ministers had really understood what was involved.

[4] E. R. Walker, *The Australian Economy in War and Reconstruction* (1947), p. 156.

[5] Production Executive Agendum 3/1942, 27 Jan.

[6] 18 Dec 1941.

to each of the signatories and to the Australasian Council of Trade Unions and the Australian Workers Union, which between them included nearly all trade unions. The recipients were invited to conferences to explore the establishment of joint management-labour advisory committees for the purpose of implementing government policy, defined in the decisions of those conferences as:

(a) To devote an increased proportion of labour and plant to the war programme.

(b) To release labour, materials and equipment from non-essential production by:
  (i) reducing the production of non-essential commodities and services;
  (ii) eliminating unnecessary varieties and packaging, wherever these are retaining labour etc. required for war purposes;
  (iii) rationalising distribution systems wherever this promises economy in manpower and other resources.

(c) To preserve as far as possible the fundamental structure of industries which are disturbed or restricted by war measures or conditions, so that the industries will be in a position to meet the post-war demands for their products.

(d) To ensure that the necessary adjustments of industry are achieved without conferring special advantages on particular interests at the expense of other firms, and especially those that devote themselves to the war effort.[7]

Significantly the statement omitted an item in the Minister's letter, "the concentration of production should such a course be necessary" and paragraphs (c) and (d) were a restatement in more neutral sentences from the letter expressing the concern of business (and the unions), even as Malaya and Singapore were collapsing, to safeguard vested interests and competitive positions, a frame of mind which was to be crucial in the success or failure of rationalisation plans.

In practice though many such committees were formally organised, in general they did not function as such. In a number of cases there was passive resistance and any rationalisation which was achieved was initiated by the department pressing proposals on trade associations and unions, or by less formal conferences and discussions held separately with the two groups. In many cases employers were willing to consider substantial changes but reluctant to accept what was seen as worker participation on equal terms in managerial decisions and unwilling to disclose information in the presence of union representatives. Moreover, Production Executive created a political difficulty by requiring, in addition to the rule that the unions concerned must always be consulted, that every rationalisation programme should be submitted to it. For a Labor Government it could be politically difficult to do other than accept a scheme jointly agreed to by employers and unions, when it had specific assurance of its endorsement by the unions, which were no less assiduous in protecting their own special interests than were employers. As a result, in many cases rationalisation so far as it was achieved was secured by less formal procedures than was originally envisaged in the industry committee scheme.

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[7] The conferences were in Melbourne on 8 and 9 Jan 1942. Somewhat different wording to the same main effect was used in defining the functions of industry committees in Appendix 1 to Production Executive Agendum 3/1942.

In particular, much rationalisation, especially in the reduction of varieties of product, was achieved by informal agreement in which the industry concerned was often prepared to adopt voluntarily the changes which War Organisation of Industry sought, as an alternative to fighting what might prove to be more far-reaching restrictions imposed on it. Sometimes the industry only wanted to be told what was an acceptable form of adjustment to loss of markets and manpower, or to be reassured that if competitors did not conform to agreed restraints compulsion would follow. And always acceptance of restraints desired by War Organisation of Industry instead of proposing measures provided a defence against discontented customers; the government could always be blamed.

In other cases where industry concurrence was not readily forthcoming, interaction between War Organisation of Industry and other departments could frequently produce desired results. Manpower was the most obvious case, particularly as War Organisation of Industry was explicitly the Manpower Directorate's adviser on the essentiality of goods and services and the scale on which production of them should continue. It is often difficult to decide whether Manpower took labour from an industry which was then induced to reorganise its activities to fit its reduced labour force along lines acceptable to War Organisation of Industry, or that department rationalised an industry so as to reduce its demands on the labour force and Manpower disposed of the labour released. What was true of the Manpower Directorate was also true of, for instance, the Department of Supply with its manifold control over the supply of materials; and was true of other departments.

Moreover, and more generally, without any specific departmental decisions, war imposed on many industries loss of labour and of markets, financial restrictions, deficient supply of materials and, in particular cases, the type of rationalisation sought by War Organisation of Industry would in any case have been a normal free enterprise response. In such cases War Organisation of Industry's programme had a significant effect in determining the particular form of industrial adjustments even if the operative force were the greater profit from diversion to war work or the need to reorganise in the face of war-induced shortages. The department's achievements in rationalisation therefore escape quantitative assessment. The formal record of official rationalisation schemes must be supplemented by rationalisation which was associated, either as cause or effect, with the activity of another department; by voluntary rationalisation inspired by the department; developments which cannot be separated from reorganisation forced by conditions of war itself.

There were two inherent dangers in the rationalisation programme, the greater because of the origins of the staff the department recruited. For its industries division the department sought expertise and business experience, but refused to follow the Department of Supply which, to handle its relations with industries, used controllers and other officers who had close associations with those industries and who intended to return to them, if they did not, as they often did, retain part-time activity with their

previous employer. This meant, in 1942, that many of the industries officers of War Organisation of Industry were not drawn from senior ranks of business, and in some cases had been displaced by war-created contraction of the industry from which they came.[8] A second group of recruits were drawn from universities, and had the advantages of freshness of view, detachment from personal interest in the fortunes of this or that private enterprise, and usually no intention of remaining in public service or developing business careers after the war. But these virtues were qualified by lack of detailed experience of business or administrative procedure (though some in fact discovered a flair for administration and ended after all as permanent public servants), and by a somewhat cavalier attitude to the long-term effects on private business interests. Both groups suffered from the all too human satisfaction of exercising unaccustomed power.[9]

One consequence was a certain intermingling of objectives of official wartime policies with what might best be described as moralist purposes. There could well be justification for seeking to, as J. M. Keynes put it, snatch a measure of social improvement from the exigencies of war, but the persistence of War Organisation of Industry with attempts to curtail and at the same time "reform" advertising, or to restrict proprietary medicines, was heavily influenced by a conviction on the part of some of those concerned that most advertising was anti-social waste and that many proprietary medicines if not positively harmful were medically useless exploitation of the gullible.

In the result a lot of time and energy were expended on planning rationalisation of activities which could contribute little to war or more essential civilian production, a little which could be more simply obtained by manpower call-up or cutting off of supplies of materials. Much of the newspaper campaign against the department, which became intense after the Japanese advance in New Guinea was halted and the apparent imminence of invasion receded, relied on exploiting the triviality of some of the department's activities as if they were its main concern.[1]

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[8] There were conspicuous exceptions, notably A. A. Fitzgerald, head of the division.

[9] It should be said that a group in the department, who in fact were all academics, were the chief critics of the itch to control for the sake of controlling, and to use the rationalisation procedures to pursue long-term reformist objectives. An officer of War Organisation of Industry produced a parody of a Production Executive submission arguing that the department should logically proceed to "rationalise" itself by promulgating an order, to read, in its entirety: "1. This Order may be cited at the Last Prohibition of Non-Essential Activities Order. 2. Except with the consent of a Minister, a person shall not."

[1] The over-enthusiasm of some officers had long before been satirised within the department itself:

As some day it may happen that the Japs will get around,
We've got a little list, we've got a little list;
Of persons and activities that might well be underground,
And that never would be missed, that never would be missed.
There's the patent medicinal quack, who tells with endless glee,
Of Bidomak and Hutuwai and Kruschen Salts in tea;
All advertisements of doubtful fame, whose agencies insist,
We really must buy that and this—we've got *them* on the list.
All entertainers, socialites, we're ready to arraign,
With people who eat chewing-gum and stick it in the train;
And those who wear cosmetics and are trying to explain,
That they really know they're awful but not-completely down the drain;
And those who want to fight a war, complete with old school tie,
Who "really think it's jolly fun and would rather like to fly";
Then there's the lady from the beauty shop, complete with manicurist,
We don't think *she'd* be missed—we're *sure* she'd not be missed!

To some extent these departmental tendencies flourished because of lack of firm direction from the top, for which Dedman himself was to some degree responsible. Too sincere and idealistic to be a really good politician, he was completely loyal to his staff and committed to principles of conduct that were entirely admirable but unlikely to promote a successful political career. Thus the Manpower Directorate, concerned about the leakage of labour, especially women, to well-paid temporary work in retail stores at Christmas, succeeded in securing Production Executive approval to a ban on Christmas advertising at the end of 1942. Normally the order would have been signed by the relevant Minister, E. J. Ward, who cannily refused. Since any Minister's signature satisfied legal requirements, Dedman as chairman of Production Executive, with a less sensitive political nose, signed it, to be pilloried as the man who killed Father Christmas. In the rationalisation plan for cakes and pastry the proposal from the industry, endorsed by the union, allowed only white icing. As in a number of other rationalisation programmes, items which the department would not have proposed itself were often allowed to stand if both employers and unions endorsed them, but in this instance the general body of the union after publication of the plan disowned their own representatives' proposal. Because he had accepted the proposal, Dedman refused to defend himself by explaining the origin of the ban (on *all* coloured icings) when journalists with a flair for the effective tag labelled him as the man who banned pink icing.[2]

And since we really must begin to find some things to cut,
We've got another list, we've got another list;
Of persons and activities that could probably go phut,
And that scarcely would be missed, that scarcely would be missed.
There's the lurking street photographer who takes a candid snap,
Not to mention Paper Contents Bills—we'll have to shut *their* trap.
Then smallgoods and confectioners who sell their sickly ooze,
To silly flappers round the town—they'd be better on the booze;
And the ladies from the suburbs who with hairdressers persist,
We've got *them* on the list—they're *next* upon the list.
Then hotels and tobacconists have got to take their cut,
We really don't much like to, but we'll have to send *some* phut.
Toy manufacturers, fancygoods and others of their type,
With bakers, butchers, greengrocers—*their* cut is over-ripe.
All gentlemen of fashion, who dear tailors can't resist,
We'll shove *them* on the list—we've *got* them on the list!
Since we hate inefficiency, we'll all firms rationalise;
So we're making a third list, we're making a third list;
Of persons and activities we could easily centralise,
—The rest never would be missed, they never would be missed.
There are solicitors and lawyers who in Chancery Lane disport,
We don't like their lingo, so we'll rule half out of court.
As for financial institutions branching out at such a rate,
There's not much to *their* credit, for we've already set a bait.
Then all architects and masseurs along with the chiropodist,
They could easily be missed, we'll put *them* on the list.
All accountants and all auditors who love to journalise,
We'll post some down without much loss—the balance rationalise.
With removalists and carriers we're prepared to have no truck,
Soft drinks and sloppy milk bars—we'll clean up *all that* muck,
And all commercial activities, especially real estate,
—There'll be no letting-up on them—we'll just amalgamate!

—N. G. Butlin, Feb 1942.

[2] Another example of Dedman's readiness to incur odium rather than offend his conscience occurred in late 1942 when a Sydney newspaper published photographs purporting to show the horrible results of the simplification of clothing orders (a tall and a short girl allegedly wearing dresses made to the prescribed standards). Within forty-eight hours Dedman was given statutory declarations from the photographer and the girls as to the crude faking methods employed, but refused to use them because, he said, the only real sufferers from the exposure of the fraud would be the girls, who would probably lose their jobs.

EFFORTS TO "RATIONALISE"

Clothing

Clothing rationalisation was the area of which the general public was most directly aware and most critical. Made early in 1942, an assessment of impending clothing shortage not only gave urgency to the introduction of coupon rationing of a range of goods of which, in the event, clothing was the class most in need of rationing, but spurred on the department to rationalise the clothing to be made available. Broadly the objective was to eliminate manufacture of some garments; reduce the range of styles of others; simplify permitted styles to reduce usage of materials; and eliminate or curtail "unnecessary" decoration; and thus to concentrate production on garments deemed most necessary and to ensure maximum production of these with available materials, labour and plant.

War Organisation of Industry entered the field of clothing control in March 1942 by securing Production Executive approval for proposed controls over woven and worsted materials for civil needs. Under these Supply and Development was to be responsible for production, Trade and Customs for distribution. Weekly production targets of various classes of goods (flannel, blankets, men's suitings and the like) were to be settled between Trade and Customs and War Organisation of Industry; the Prices Branch was brought in in relation to standardisation of quality.[3]

The scheme pointed to the fact that War Organisation of Industry was impinging on the activities of a number of well-established departments and that its plans would have to pay regard to their spheres of competence. In principle this presented no difficulty because one of the functions of War Organisation of Industry was supposed to be the promoting of co-ordination between different authorities, but in practice that objective was not to be attained without much careful diplomacy and recurrent friction. Already War Organisation of Industry was exploring more far-reaching measures for clothing control.

First of these to be implemented, largely though not entirely through the persistence of War Organisation of Industry, was coupon rationing of clothing in June.[4] Second was the preparation of detailed programmes for the standardisation of the full range of civilian apparel. These clearly had far-reaching implications for a number of departments, and the need for regular mutual consultation and co-ordination was recognised in the establishment of the Australian Clothing Council, comprising War Organisation of Industry (executive member), the Rationing Commission, Import Procurement, Supply and Development, Manpower and a representative of the Services.[5] Co-ordination was its central task—co-ordinating activities of member departments, settling differences as to spheres of competence; advising Production Executive and the Allied Supply Council on clothing matters; co-ordinating production and distribution of clothing.

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[3] Production Executive Agendum 17/1942, 7 Mar.

[4] See below Chapter 11 for coupon rationing, including clothing. Rationing of clothing began on 15 Jun.

[5] Production Executive Decision 84/1942, 30 Jun.

The first orders for control of clothing were issued in July, covering knitted outerwear, knitted underwear, men's half hose, hosiery, feminine outerwear, male outerwear.[6] The knitted goods orders (to be administered by a Controller of Knitted Goods in the Department of Supply) included a number of prohibitions of manufacture, such as women's vests with fitted tops, sheer stockings, and certain types of men's pullovers. For each type of garment to be produced a limited range of styles to be produced by each manufacturer was specified, and trimmings and decorations were curtailed. (For example, the only trimming of knitted goods allowed was the use of lace on the raw edge of underwear material.) Control was to be achieved by requiring approval of sample garments.

The Feminine Outerwear Order prohibited production of evening wear; double-breasted garments; riding breeches; coats, slacks and skirts with belts; dresses with matching jackets. There were detailed specifications of permitted styles, aimed at economising materials (and labour). The Male Outerwear Order followed similar lines, more easily formulated because of the more uniform nature of men's clothing. Its conspicuous provision was for the "Victory" suit, much criticised and, in the event, bought reluctantly. Dedman was later to claim: "From the government's point of view the Victory suit was highly successful. The real purpose of the suit was to make it so unpopular that unless very hard up for a suit nobody would want to buy one. It succeeded in making material available for other purposes. I have not one regret in regard to the Victory suit. It did the job which the government set out to do. Its real purpose was to discourage the people from buying suits. It succeeded admirably in that purpose."[7] But this seems to have been hindsight. In the designing of the suit the main objective was clearly to minimise the use of material in each suit.

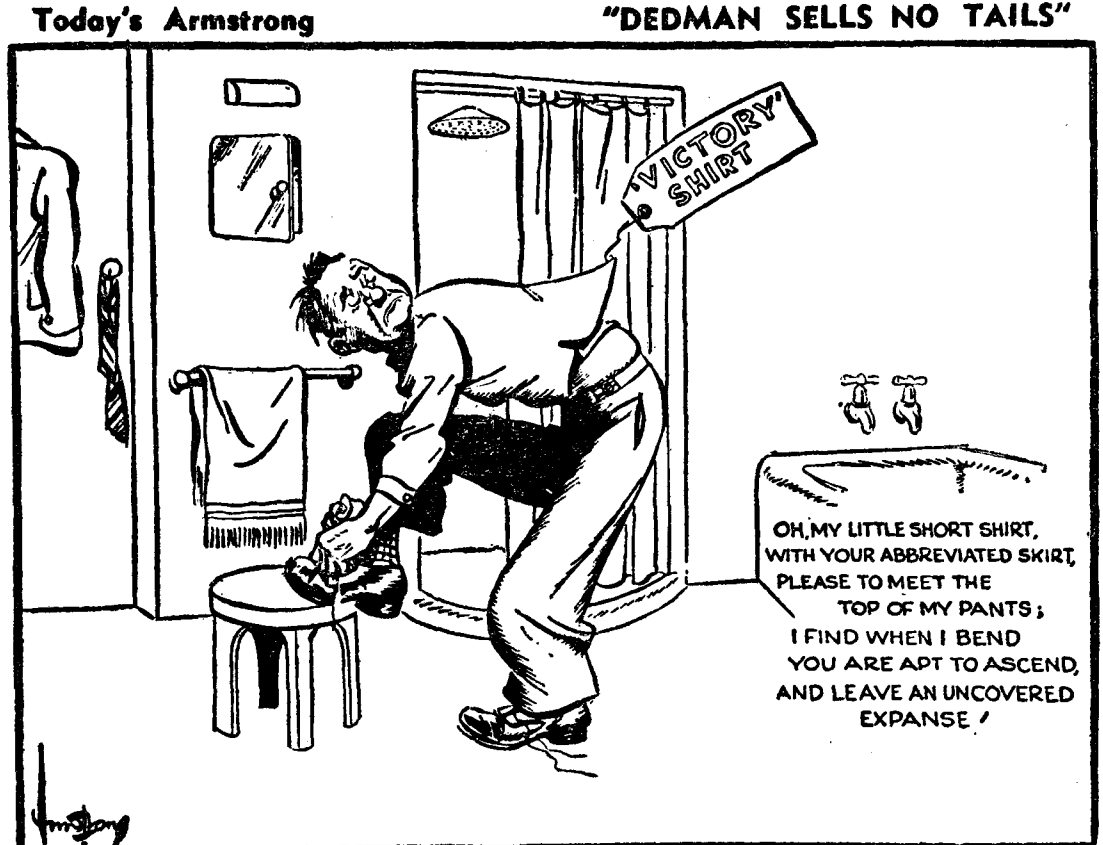
Contemporary male fashion demanded a three-piece suit. The Victory suit prohibited waistcoats, it being demonstrated that the material saved would make a pair of boys' short trousers. The suit was cut with a minimum of loose cloth, shorn of all decoration (including in particular trouser cuffs), minimal pockets. The most resented feature was the elimination of the waistcoat and under intense pressure its production was permitted after only five months.[8] Further relaxation came in March 1943 when double-breasted jackets (and overcoats) and trouser cuffs were allowed, ostensibly because of better production of wool cloth and reduced Service demands.

Shirts and pyjamas were the subject of an order in October 1942, simplifying design and reducing the number of styles, and sharply curtailing the length of shirts. Footwear control (in this case directly administered by War Organisation of Industry) had been imposed the

[6] Issued on 27 July. On 16 June the Control of Elastic Materials Order had restricted the amount of rubber to be used in manufacturing corsets.

[7] At conference with Clothing Trades Union, 12 Apr 1943. The month before there had been major relaxations in the severe specifications for men's suits. The reaction of a former Prime Minister, J. H. Scullin, to the suit is also worth recording: "Now my wife won't try to stop me wearing my old suits."

[8] From 12 Dec 1942.



Armstrong in Argus (*Melbourne*), *22 Oct 1942.*

previous month and involved elimination of many styles, and detailed specifications of design and materials for those which were permitted.[9]

By the end of 1942, therefore, clothing being produced in Australia had been drastically simplified in styling and in variety, with evident economies in usage of materials and labour, and as a consequence, increased capacity to supply the basic garments provided for in the orders, at the same time as rationing restrained demand. Infringements of the orders were common but prosecutions were few (some convictions were obtained in New South Wales), in part because many infringements were of no great importance, such as the using up of stocks of otherwise unusable materials.

More positive action to increase supply of basic requirements was taken. In September 1942, at the instance of War Organisation of Industry there was established a Textile Production Committee "in view of the acute shortage of various types of clothing and . . . still ample unused capacity in the wool and cotton spinning industry and large stocks of wool and raw cotton".[1] Behind its establishment lay the belief, strongest in War Organisation of Industry but not confined to that department, that Supply was dragging its feet in accepting responsibility for production of civilian as distinct from military clothing. Clothing Trades (Manpower) committees were also created in each State under the supervision of Manpower primarily to canalise efforts to increase labour supply. War Organisation of Industry also co-operated in the inauguration in June 1943 of a Federal Clothing and Textile Advisory Council, representing clothing and textile production interests (retail distribution was excluded), to provide a central point of direct consultation between the trade and various government departments.

As Supply moved more fully into active supervision of production, and as, through the machinery set up and less formal procedures, closer contact at many points between departments and industry developed, other control and simplification schemes were achieved without the necessity of mandatory orders. By mid-1943 War Organisation of Industry could note voluntary arrangements for men's felt hats, nurses' uniforms, overalls, millinery; while Supply was implementing simplification of waterproof clothing. The possibility of all responsibility for clothing standardisation and simplification being handed over to Supply, and the future of the Clothing Council, were being canvassed in War Organisation of Industry.

Something less was agreed upon in July 1943 between Chippindall and G. A. Davis,[2] who had become Director of Clothing and Textiles in Supply. The Clothing Council went "into recess", recognising the reality that it had little to do (most of its still viable functions were being handled by a committee consisting of Chippindall, for War Organisation of

[9] Control of Clothing (Footwear) Order, 2 Sep 1942.

[1] Production Executive Agendum 99/1942. Members were: representatives of War Organisation of Industry (chairman), Supply, Labour and National Service, the Textile Workers' Union, and production technicians.

[2] G. A. Davis. Controller of Service Foodstuffs 1942-43; C'wealth Director of Clothing and Textiles 1943-44; Gen. Manager, C'wealth Disposals Commission 1944-47; Chmn Overseas Corp. Aust Ltd 1953-73. B. Bathurst, NSW, 26 Jul 1900.

Industry, Professor D. B. Copland, the Prices Commissioner, and H. C. Coombs, Director of Rationing). The Chippindall-Davis conference registered the fact that effective if not legal administration of most of the clothing orders had already passed over to Supply, and agreed on changes in administrative procedures which carried that process further. The Textile Production Committee was formally abolished in December. War Organisation of Industry was not yet, however, prepared to abandon the whole field of clothing rationalisation to Supply, and variations and relaxations of the orders as Service demand fell away and production for the civilian market could be expanded continued until the end of 1944 to be handled by War Organisation of Industry, despite recurrent proposals in the department itself for evacuating the field.

In August 1944 Production Executive accepted Dedman's submission that the Rationing Commission was sufficiently experienced to assess civilian requirements, that the Manpower Directorate was able to control the industry's labour supplies, that production was now effectively supervised by the Department of Supply and that the clothing orders (after revision) should be henceforth entirely administered by Supply. Major relaxations of the clothing orders were announced in December.[3]

Packaging

Control of packaging illustrates the type of restriction which was easy to achieve because it was acceptable to the chief trade bodies concerned provided the authority of the government, by making it universal in application, eliminated the pressure of competition. Indeed, the main lines of the restrictions originated with the Printing and Allied Trades Employers' Federation, a body representing printers and carton and box makers throughout Australia and was endorsed by the Storemen and Packers' Union as well as by the Commonwealth departments most affected. The plan provided that goods for retail sale should have one "primary" package, the intention being that this should be the minimum necessary for protection of the goods; for wholesale distribution, except in special cases, a container to hold a number of items should contain at least six. Printing on the "primary" package was to be limited to two colours, while the wholesale, or "secondary", package was to have one colour only.[4]

With labour and materials scarce, these were obvious economies which many traders were already adopting partially from sheer necessity. The authority of a government order, by placing all competitors on the same basis and providing a ready answer to customers' complaints, made the trade acquiescence easy.

Much the same points applied to the wide range of orders and voluntary arrangements for reduction in the number of varieties of goods produced and in the finish applied to them. Reduction in varieties was a common

[3] On 14 Dec. For the transfer to Supply, Production Agendum 85/1944, 5 Aug and Decision 589, 30 Aug.

[4] Production Executive Agendum 81/1942, 29 Jul.

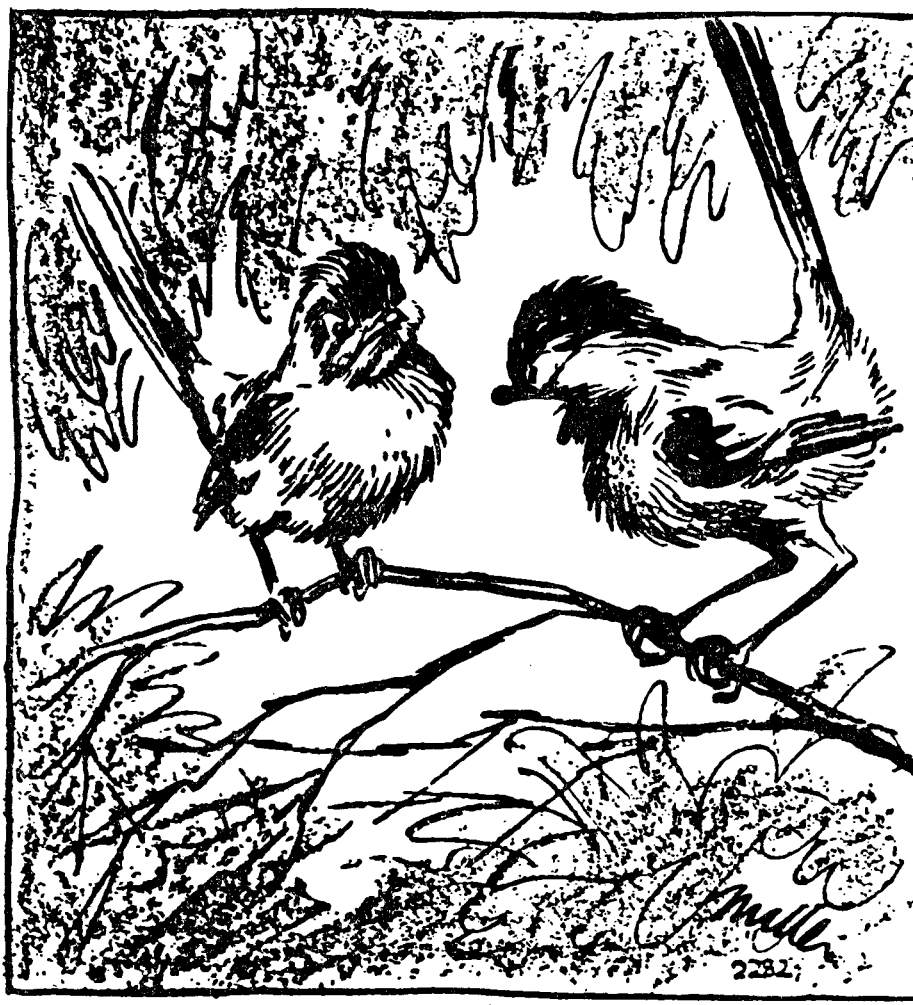
feature in almost all rationalisation plans where such reduction was relevant, and agreements or orders relating to goods as diverse as hand tools and cakes followed. A few simple examples must suffice.

The number of types and sizes of shovel to be manufactured was reduced from 46 to 14 and of handles from 7 to 3; some finishing processes were prohibited and others restricted; types of material to be used were limited. The specifications were laid down after comprehensive checking with the Services and Commonwealth and State public construction and other authorities.[5] Dry batteries were the subject of a similar approval. Specifications were laid down for types of battery which might be produced; all others were prohibited except under permit. The plan was designed to reduce the number of radio battery types from 14 to 5, of torch batteries from 8 to 2; of general purpose dry batteries to one standard model; and of batteries for use in hearing aids from 445 to 63 (greater reduction was prevented by the variety of hearing aids in use). Yet another simple example was horseshoes. There were in 1942 no less than 112 different sizes of horseshoe being manufactured, although it appeared that no more than 31 could be justified; in place of 14 weights of steel 6 were enough.[6] The horse was still vitally important as a work animal and the saving in steel, in the rolling of special sizes of steel, and in the accumulation of stocks of special sizes was significant. Once again there was a notable agreement with the plan by typical major users, by the union and by the five manufacturers concerned.

The example illustrates another feature of many rationalisation plans, namely that departments other than War Organisation of Industry were concerned and became responsible for administration—packaging by Trade and Customs, shovels, batteries and horseshoes by Munitions. Control of packaging went to Trade and Customs because it was already responsible for a metal foil order and was so jealous of its sphere of operations that it had initially opposed control of other packaging. Munitions was the department most concerned with the manufacture of the other items and strongly supported the restrictions. Behind the simple matter of different weights of horseshoe steel, for instance, was Munitions concern about breaks in steel rolling needed to produce short runs of special weights and shapes of steel. It was in fact often difficult to be sure of the primary source of pressure for a rationalisation plan even when it was given its final form and presented to Cabinet by War Organisation of Industry. Other departments were normally ready to allow War Organisation of Industry to have any unpopularity associated with restrictions; it was formally the department responsible for rationalisation and co-ordination; and, particularly in 1942, fired by a desire to extend the range of its operations by giving the fullest meaning to those terms, and masochistically ready to incur odium.

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[5] Production Executive Agendum 106/1942, 3 Oct.
[6] Production Executive Agendum 115/1942, 14 Oct.



"You can't just say 'We'll build our nest here.' What about priorities and building permits, and ——"

Miller in Smith's Weekly (*Sydney*), *30 Jun 1945.*

Bread

In the case of bread, rationalisation took the simple form of combining reduction in the varieties produced and zoning of deliveries.[7] White, wholemeal and brown breads were to be produced only in one pound and two pound loaves, restricted to these baked in tins; starch-reduced bread, similarly only baked in tins, was to be of one pound size only. Vienna loaves were to be of one size only; and two types of roll were permitted. Bread might be neither sliced nor wrapped.

Each bread manufacturer was licensed and assigned a particular area and might not sell bread outside this area, thus eliminating at one stroke a familiar sight before the war of several bakers' carts (predominantly horse-drawn) delivering bread in the same suburban street. Administration of the scheme involved a Bread Industry Advisory Committee in each State, with equal numbers of bread manufacturers and union representatives; the local monopoly conferred on each manufacturer was to be curbed by the threat of suspension or cancellation of a licence. Dedman, in a press statement in December 1942, claimed that the effect of these restrictions, mainly but not wholly those on deliveries, had been to release some 1,500 men for other work, and to make unnecessary nearly as many vehicles, although as only 400 of these were motor vehicles, many of these were not readily usable for other purposes without conversion from their specialised design.

EFFORTS TO "CONCENTRATE"

"Concentration" of industry, in principle, was the concentrating of the total output of a commodity at the reduced level possible or permitted during wartime, in more efficient (which generally meant larger) plants, and the closing down of other plants, ostensibly for the duration of the war. The inspiration was the adoption of such a programme in Britain, reinforced by imperfect knowledge of a similar programme in Germany. During 1942 and 1943 a number of industries were considered as candidates for concentration—tea-packing and distribution, dry-cleaning, manufacture of gas producers, flour-milling, bread-baking, insurance (fire, marine, accident, but not life), fully-fashioned hosiery, cosmetics, windmills, and so on.

In some cases some form of concentration was suggested by the industry itself and in the event such concentration as did happen occurred in such cases, usually in association with other rationalisation measures, or happened without plan as the weaker or less efficient firms were forced out of business by loss of labour, lack of materials, or inability to operate at a profit. Full-blooded concentration, in the sense that some firms were compulsorily closed, did not occur, because reconciliation of the conflicting private interests involved proved elusive.

The central area of disagreement was over compensation to those firms which would be closed, to provide for the maintenance of closed

[7] Bread Industry Order, 25 June 1942.

plant and to give them a share of the total profits of the industry. In isolation the idea could appear rational, particularly in the light of long-familiar marketing schemes for primary products such as the "equalisation" plan for butter, the equalising being of returns to individual producers on butter sold locally in a protected market or overseas. But many other individuals and firms were suffering loss from the war, including loss directly inflicted by government action, and in general could expect no compensation or maintenance of income. The most obvious, and emotionally-charged case was that of men conscripted for military service. People who lost their jobs because of government prohibitions of manufacture and could not be found alternatives might be eligible for a small allowance if they could establish need, but few were in fact eligible and the analogy was obviously a remote one.

The Department therefore early rejected any notion of pooling of profits and turned instead to the notion that in some cases the Government might accept responsibility for maintenance of closed plant, and this idea was part of several abortive concentration plans.

A further problem of concentration arose from the small number of firms in many Australian industries of the time, which meant that concentration could produce unwelcome results. In some instances, a logical concentration would result in only one firm continuing in production; one of the first such cases that emerged was windmills, still of importance to farmers in many areas. One manufacturer, the largest and with the lowest costs, could have met the entire demand and was therefore the logical choice. But this would have given it a wartime monopoly which would almost certainly have been permanent. The demand for windmills was Australia-wide so that gains from concentration of manufacture would be offset by additional transport needs for a bulky commodity.

Flour-milling

The concentration in flour-milling was frustrated for somewhat different reasons. Pre-war Australian flour-milling had been developed to meet a large export market of which half was lost when war in the Pacific began. The Australian Wheat Board's response was to spread the trade that remained over all flour-mills, all of which were therefore under-utilised. Here was, apparently, a good case for concentration.

But the case against it, with due allowance for special pleading, was strong. Reduction in the number of mills operating would create major transport problems, primarily on the already overworked railways. Savings in labour from multiple shifts, it appeared, would be negligible compared with operating more mills for single shifts. The Wheat Board and the Department of Commerce combined to oppose concentration, the latter urging the shortage of wheat offals for dairying, poultry and pig production, the former urging that stored wheat deteriorated and the best solution was to reduce it to flour and offal. Over all hung the political resistance of farming interests and the special committee investigating the industry abandoned concentration. Soon afterwards Britain sought large shipments

of flour so that concentration, it appeared, would have been the wrong policy—another illustration of how the unforeseeable course of war could vitiate the best plans.

Superphosphate

Superphosphate provided another example. War sharply curtailed supplies of the raw material and concentration was explored exhaustively. But the manpower needs of the industry were not great, and concentration would have greatly increased transport problems, since superphosphate was needed throughout farming areas. Moreover, it was accepted that if plants were closed they should be maintained in working order since once raw materials were freely available it would be desirable, even in wartime, to expand production. To all these was added the resistance of State governments who were concerned about the consequent railway transport problems, including the impact on their complicated freight rate structures which included zoning arrangements designed to preserve existing markets for various factories. There were technical (and financial) complexities to be faced too, in the production of superphosphate by companies concerned also with the production of other chemicals. Once again the fortunes of war were decisive for the abandonment of concentration; Allied victory in North Africa relieved the shortage of raw materials.

Banking and Insurance

But if concentration in its full sense proved unattainable, some limited concentration was sought, and in some degree attained, in other industries. Concentration in the form of reduced numbers of branches was the main line of attack in seeking to bring banking within rationalisation, and in a different form was the approach to insurance. In general terms, following a meeting in early March 1942, the banks acquiesced and proposed the closing of 416 branches (73 had already been closed since the outbreak of war). But the execution of this programme struck difficulty. The Government made it clear that it would not find acceptable the closing of a branch which was the only one in a locality, although in many cases this yielded the best reduction in costs (though not necessarily in manpower) and avoided questions of choice between competing banks as to which should close.

This last was the more serious obstacle. Australian banking had been a branch system for a century and extension of branches one of its chief forms of competition. To withdraw from a particular town was unwelcome to any bank unless it could negotiate offsetting closure elsewhere by a competitor, and in practice reaching finality in a network of bilateral arrangements proved more difficult than the March meeting suggested. These questions came to a head because of the attitude of the general manager of the Bank of New South Wales, Sir Alfred Davidson.[8] Masterful and resentful of government "interference", Davidson genuinely

[8] Sir Alfred Davidson, KBE. Bank of NSW 1901-26; Gen Mgr WA Bank 1926-27 on amalgamn WA Bank and Bank NSW; Gen Mgr Bank of NSW 1929-46. B. 1 Apr 1882. Died 18 Nov 1952.

believed that the policy of the Department of War Organisation of Industry was wrong; that whatever manpower was required should be called up; and the banks left to work out their own solutions which might include closing branches, but might equally involve changing methods of operation. He also argued that his bank had already lost a greater proportion of male staff than other banks, a claim balanced by the fact that prevision had led the bank from the beginning of the war to recruit substantial numbers of women and young males.

Less aggressively, other banks were manoeuvring among themselves and in relation to the Pank of New South Wales, to avoid long-term loss of relative competitive strength, and at times their relations among themselves were almost as strained as their exchanges with the Department verged on the acrimonious. Dedman threatened in June to impose his own schedule of branch closures, and finally in November obtained formal power to do so,[9] but announced that he would give the banks another chance. By March 1943 he could announce that over 400 branches had been closed and substantially the rationalisation plan was complete. The Manpower Directorate then set a staff ceiling for the banks, who were not to be permitted to employ more than 55 per cent of their pre-war male staff, nor more than 90 per cent of pre-war total staff. (Davidson could score a point, that the Bank of New South Wales had already done better.) It remained an open question whether the same result might not have been achieved at least as quickly by successive Manpower actions, without the Department becoming involved in all the complexities of inter-bank competition. The Department's answer was that it had to take the line it did to protect the interests of small communities by ensuring that the choice of branches to be closed was guided by other considerations than the interests of the banks concerned.

In a totally different field, insurance illustrated much the same outcome. There was a range of life assurance companies, and a more complicated variety of fire, accident, marine insurance companies, divided into "tariff" companies (doing business at standardised rates) and non-tariff companies, and a number of insurance brokers; a number of companies, including some of the larger, were offshoots of British companies. A conspicuous feature was a misleading variety of firm names, the result of various amalgamations in which the separate identities of the former companies were nominally maintained; although 139 fire, marine and accident companies were then registered, there were in fact only 66 which were separate in the sense of employing separate staffs.

Not accorded labour protection, the industry had lost by the end of 1942 a substantial part of its staff to the Services—58 per cent of men and 13 per cent of women, partly offset by further employment of women. (The companies complained that young girls stayed long enough to gain sufficient experience of office work to secure employment in a protected establishment.) After repeated prodding the Council of Fire and Accident

[9] Statutory Rules 1942, No. 84, 17 Nov.

Underwriters produced an interim report on what had been done towards the forms of rationalisation urged by War Organisation of Industry. An agreement, to which most but not all were parties, had been made to suspend for the duration of the war active competition. It was claimed that much internal office work had been simplified and preparation of reports and statistics suspended. Outdoor staffs of salesmen, canvassers and "inspectors" had been reduced (attention was not drawn to an associated increase in "resident managers" in country areas). A lengthy statement of the difficulties of operating a central claims settlement bureau was clearly intended as a refusal to entertain the idea; a suggestion that opening offices to the public for shorter hours and working longer hours was dismissed as impracticable. Reduction in the number of offices and closing of sub-branches presented difficulties and would "require some time to explore fully". Three months later a further report traversed the same ground, the only significant advance being an increase in office working hours from 38 to 40 a week.

By then War Organisation of Industry was prepared to accept a voluntary agreement which, in effect, assumed that the companies were doing their best under the pressure of staff shortage to pare clerical work; accepted the then level of staffing (40 per cent of pre-war males) as one to be established; and the elimination of all competition for new business. The files imply the conclusion that reduction in labour supply could not proceed further and that useful additional economies, in paper for example, would not be worth the effort. In short, such rationalisation as had occurred had been mainly forced by the depredations of the Manpower Directorate, modified to the extent that the particular forms of simplification and economy urged by War Organisation of Industry tended to be favoured because they reduced the risk of government compulsion.[1]

Tea

An example of carefully planned rationalisation which in the end did not proceed because the Cabinet was unwilling to act and which illustrated how apparently simple and rational solutions could involve complex issues, was that of tea. Following Japanese entry into the war and the Empire Purchase Scheme under which Britain was the sole purchaser of tea, allocating supplies to Allied countries, distribution of tea to wholesalers in Australia was controlled by the Tea Board; prices were fixed and wholesalers' margins controlled. Tea was among the initial group of commodities to be rationed. From November 1942 tea was marketed in two grades only.

It could seem, therefore, that rationalisation could concentrate on problems of packing tea, imported in bulk, into retail packets, and in particular on the unequal distribution of packing facilities, compared with consumption, between States. The industry itself having failed to produce

[1] The agreement, formally with the Council of Fire and Accident Underwriters, was basically adhered to by others, but without formal commitment. It was terminated by the Council on 1 Aug 1945. (Letter from Council to War Organisation of Industry, 4 Aug.)

an acceptable agreed plan, a War Organisation of Industry committee of three prepared a comprehensive set of proposals.

Some of these were not particularly contentious, such as reducing the size of packets to two, and progressively increasing the proportion packed in one pound rather than half-pound size, or that as far as shipping exigencies permitted each State receive its bulk supplies from overseas direct. But proposals for concentration of packing and minimising of interstate transport went to the heart of the matter. Broadly, the committee found that Queensland, Tasmania and South Australia were not equipped to pack all tea needed for local consumption, while the various companies had a variety of packing machines which were not interchangeable; there was still a substantial amount of handpacking.

The committee proposed, State by State, which firms should pack for the States in which they were situated, which in the surplus States should supply the needs of States which could not pack all their own requirements; and nominated machines to be transferred (for example from Melbourne to Adelaide) to eliminate the need for interstate shipment of packed tea. It recommended that all brands and trademarks be eliminated so that no firm should gain a wartime advantage which would continue into peace, and that, consistently, advertising and sales promotion devices such as bonus coupons be eliminated and, unless tea were delivered to shops along with other groceries, delivery should be in unlabelled vans.

Reluctantly accepting that compensation to firms whose plants would be closed or operations curtailed was not politically acceptable, the committee went on to propose that the Government meet the cost of maintenance and if necessary storage of plant withdrawn from use, with debt adjustment arrangements for firms adversely affected. In recognition of the fact that some of the workers involved (for example married women) were likely to have difficulty in finding alternative employment, it was recommended that the choice of workers to be retained be influenced by unsuitability for other essential employment as well as by special skills.

The elimination of brands and trademarks, here as in other industries, was anathema to the trade, and without it the reallocation of markets to particular suppliers had post-war implications equally unacceptable, as well as appearing, politically, to be inequitable. To War Organisation of Industry itself and to the Government, proposals such as these for maintenance and storage of equipment would create precedents with obvious application to all cases where plant and machinery were rendered idle by government policy. Faced by strong pressure by firms bent on preserving individual market positions, and aware of the precedents which the plan would create, Production Executive decided to "defer for the present" rationalisation of the tea industry.[2] Some of the purposes of the plan could in the event be achieved by other means, for instance curtailment of interstate shipping of packed tea could be handled as a land transport restriction, and this could promote on a modest scale what the

[2] Production Executive Decision 383, 20 Oct 1943.

committee had contemplated as an inferior substitute for eliminating brands, the packing by some firms of tea in packets bearing another firm's brand.

THE PROBLEMS OF ADVERTISING

The approach to advertising control was dictated by several considerations. Many of those concerned in formulating policy proposals, not only in the Department of War Organisation of Industry but in the Rationing Commission and elsewhere were influenced by a moralistic prejudice against advertising as largely a wasteful activity the main purpose of which was to persuade consumers to buy from one seller rather than another, and at one stage went so far as to support disallowing all advertising expenditure as a cost for tax purposes. Moralising apart, there was force in the view that merely to transfer custom from one seller to another or to hold customers to their present supplier was wasteful in wartime, but unfortunately this was hard to distinguish from the desirable function of supplying information to buyers and to other sellers.

The other motive for attempting to restrict advertising was that its primary purpose was to induce spending, and in wartime the contrary must be the objective of government policy. Moreover, advertising on non-essential goods or those rationed or in short supply could make more difficult the pursuit of particular government objectives, and increase consumers' resistance to policy decisions.

Such limited success as was achieved was in this last area. In many cases prohibitions or restrictions on advertising were associated with restrictions on particular goods. Thus quotas on liquor, introduced in March 1942, were accompanied by total prohibition of advertising other than signs and hoardings already in existence. Clothes rationing was intended to be assisted, and consumer resentment reduced, by permitting advertisements restricted to very bare information such as the availability of goods, price, coupon rating.

It was in connection with efforts to regulate the manufacture and sale of proprietary medicines that War Organisation of Industry made valiant efforts to use advertising restraint as a major weapon. Pressure for control came mainly from other bodies, particularly the Commonwealth Department of Health and the Medical Equipment Control Committee. They were concerned about the waste of scarce essential drugs included in many proprietary medicines in quantities too small to have therapeutic value. Initially, power was conferred on the Minister for Health to prohibit the use of any ingredient or to limit the production of any medicine. He could also prohibit entirely the production of any medicine if it appeared it was dangerous or did not have the effect claimed. For this purpose manufacturers were required to submit specifications for each product. As well they were to submit copies of all advertising matter, which was to be confined to name and price of the medicine, and ten words of descriptive matter. But pressure against these restrictions was strong and in January 1943 advertisements were permitted to contain an illustration of the

container, directions for use, and thirty words of descriptive matter, which supposedly must not include any false or misleading claims. The campaign against the restrictions, however, was sustained and intense, and the House of Representatives disallowed them. Fertile ground for the campaign of interested parties was the firm belief of many consumers in the virtues of much-advertised preparations (even in the face of evidence of their ineffectiveness) and the not unjustified belief that the medical profession had a vested interest in opposing self-medication.[3]

Apart from such specific examples there were potent defenders of advertising. Newspapers and commercial radio stations depended for their economic viability on advertising revenue, and could make a strong case for the need to maintain means of communication in wartime. Advertising agencies and others who lived directly on advertising reinforced the pressures. Within government administration itself there were those who resented advertising restrictions, notably the War Loans organisation, which not only employed the services of advertising firms but made extensive use of newspaper space or radio time donated by advertisers, who were quick to see the tactical advantages of incorporating in their own advertising appropriate slogans purporting to support government policies. Moreover, out of the welter of special pleading and propaganda real questions emerged. The leading one was the impact of restricting advertising revenue on the maintenance of means of communication but there were others. Should, for instance, a firm no longer able to supply a product be permitted to advertise (often with the main space donated to a war loan or similar advertisement) in a form designed to keep its name familiar to the public with an eye to post-war recovery of its market? It was not surprising that all efforts at a frontal attack on advertising failed and only limited success attended inclusion of advertising restrictions as subordinate parts of other controls, the only form which in practice the Cabinet was prepared to support.

BRANDS AND TRADEMARKS

Clearly analogous to the issue of advertising was that of brands and trademarks. When a standard woollen cloth was prescribed, power was taken to prohibit the use of any trade mark or brand indicating the name of any particular maker and this appeared to many businessmen to foreshadow a general assault on one of their most precious if intangible properties. So intense was the campaign against a policy which, at that stage, existed only in the imagination of those who saw themselves as its victims, that Dedman was impelled to make a formal statement:

> If rationalisation is to succeed, it cannot be prevented from affecting the use of brands and trade marks. Elimination of these, to some degree at least, is almost always implied by the elimination of fancy and luxury varieties of products. It is difficult to find a place for the fine distinctions between products signified by many brands and trade marks when an industry is devoting its whole capacity to the

[3] The main Productive Executive Agenda are 100/1942, 3 Aug; 123/1942, 3 Sep; 77/1942 Supplement 1, 24 Sep; Supplement 3, 9 Dec.

production of a few standardised lines for essential purposes. If, moreover, some firms are required to specialise in service requirements while others supply essential civil needs, there is an element of inequity in the arrangements, for they enable the firms supplying the civilian market to gain a definite advantage in keeping their names before the public. Or again, if production be concentrated in a few firms to serve the overriding needs of the present, it would not be equitable to allow these enterprises to acquire a permanent goodwill out of the nation's misfortunes. These facts, together with the consideration that brands and trade marks in themselves use up valuable resources in printing and packaging, must give rise to the query whether competitive product-markings can be permitted to continue in those cases where a standardised product would obviously promote both efficiency in production and equity as between producers.

This does not mean that we are planning a general offensive against brands and trade marks; but it does mean that I shall not hesitate to move, in every case, for the most effective rationalisation plan, irrespective of the interests of particular firms in product-markings of one kind or another. As the Prime Minister said in a recent forceful statement, we cannot allow forty different brands of toothpaste to stand in the way of releasing men and materials for the war effort.[4]

This was an honest statement, too honest to do other than place every businessman and every advertising agent on his guard. In practice, however, the Department was learning that competitive advertising did have a defensible function, even in wartime, and, more importantly, that the most bitter resistance to rationalisation plans arose when the firms concerned believed that the relative competitive positions, one with another, which they hoped to retain into the post-war era, were being undermined. Individual prospects during the war were regarded as of quite subordinate importance, and the Department came to appreciate that trademarks and brands were central to the long-term concern of business.

One episode early drove this principle home, the case of branded bottles. Normal practice in Australia before the war was that manufacturers used bottles into which was impressed a brand and a statement that ownership of the bottle remained with the manufacturer, that is, only the contents were sold and the bottle was not available for (legal) use for subsequent purposes. A system for recovery and return of bottles, from which every schoolboy could profit, flourished. What this could mean under war conditions was illustrated by the Western Australian situation. Most of the bottles required by local manufacturers were produced in and shipped from eastern States; Western Australia consumed many products shipped from the east in branded bottles. Shipping shortage meant that Western Australian manufacturers were short of supplies of their own branded bottles while stocks of used branded bottles from the east accumulated in local bottle-yards, and in the east new bottles were ordered to replace them. (It was claimed that production of new bottles doubled, while re-use was halved.)

The obvious solution was the Department's proposal that for the duration of the war proprietary rights in branded bottles be suspended. The hostility provoked was so intense that the proposal was abandoned, and indeed the Department found itself committed, for example by sponsoring

[4] Commonwealth Debates, 29 Apr 1942.

provision of shipping space, to facilitating the continued operation of the system.

The Department therefore reconciled itself to a much more limited opportunistic policy in relation to brands and trademarks recognition of which might operate to the disadvantage of its other objectives. Thus in administering restrictions on interstate cross traffic in similar goods it generally took the view that brands should be disregarded. If local production of a commodity were adequate for local demand, the fact that consumers preferred to buy a substantially similar different brand from another State was not regarded as a sufficient reason for permitting interstate shipment.

So, too, the Civilian Requirements Board took a cavalier attitude to brands. That body was created in July 1943 as part of the programme of rebalancing wartime production by opposing, to the continued demands of the Services, Munitions and Aircraft Production, a centralised agency to speak authoritatively on the essential requirements of the civilian population, and to promote remedial action where shortages either of particular goods or in particular areas developed.[5] Shortages of particular brands cut no ice with the Board.

Yet again a similar attitude to brands and trademarks appeared in War Organisation of Industry's administration of the control over new manufactures which was instituted by amending National Security Regulations in October 1942.[6] The introduction of this control, centred in War Organisation of Industry, was provoked by a number of considerations, and illustrated the Department's co-ordinating function in operation. Establishing a new factory or manufacturing a new product had come to involve a complex paper chase to comply with all the various authorities with power to determine access to materials, labour, transport, building, import, capital and the like. Each of these bodies, concentrating on its own field, was likely either to fail to ask the general question: "Should this project be allowed to proceed at all?"; or perhaps to answer it on criteria different from that used by other authorities.[7]

In many cases the proposed new product was not regarded as essential and was therefore an unnecessary drain on labour and resources; in others it was substantially a substitute for a product already available in adequate quantity. Moreover, it appeared that many proposals for new factories were intended to evade transport restrictions, for instance by setting up a branch factory in a State to which the manufacturer's product could no longer be shipped.

The new regulations required War Organisation of Industry's consent for any new manufacture, including manufacture in a new locality, and a

[5] The Board was evidently based upon the broadly similar Consumer Needs Branch of the Board of Trade in Britain. It consisted of representatives of the Department of War Organisation of Industry, Health, Supply and Shipping and Post-war Reconstruction; Commonwealth Food Control; and the Rationing Commission.

[6] National Security Regulation 59AA, Statutory Rules 1942, No. 467, 23 Oct.

[7] An example, influential in determining the introduction of control, was an alleged shortage late in 1942 of firefighting equipment in which two manufacturers presented cases supported by equally impressive arrays of expert opinion and official decisions by sectional control authorities, establishing conclusively that there was, and there was not, an acute shortage.

permit might be made subject to conditions, for example as to scale of output or numbers employed. Issue of a permit facilitated the applicant's dealings with all other controlling authorities. All applications relating to products deemed not essential were refused, as were most of those to open new factories in other States to preserve former markets for branded goods, but the Department looked favourably on proposed arrangements for production by another established manufacturer of goods under the applicant's brand. The new manufactures control was to be especially useful in the later stages of the war in relation to the transition to peacetime production; in particular, limited and conditional permits could be granted for experimental production which might prove viable in peacetime.

Finally the department found itself at times enforcing brands and trademarks, typically in those cases where the Government was concerned to assure the quality of goods. A clear case was that of domestic furniture where the rationalisation plan could not be based on specifications of the limited range of furniture permitted, but rested on price ceilings to discourage lavish quality, and on requiring branding so as to identify the manufacturer as a means of policing regulations and in particular maintaining an acceptable standard of quality.

SCOPE OF THE ACTIVITIES OF THE DEPARTMENT OF WAR ORGANISATION OF INDUSTRY

It is impracticable to review the full range of the Department of War Organisation of Industry's impact on Australian industry and a few more specific examples of its far-ranging activities must suffice. But it should be stressed these activities *were* far-ranging, from coalmining to contraceptives, from women's hosiery to fishing, from confectionery to goldmining, and also that much of the Department's activity was reflected in influencing, or at times failing to influence, the policies pursued by other departments.

Wines and Spirits

Such rationalisation of the production and sale of liquor as occurred was subordinate to special controls over liquor which owed more to puritanical motives than to economic planning. In March 1942 production and sale of beer was ordered to be reduced by one-third as was release of spirits by wholesalers to retailers. There were also moves for the elimination of all advertising and reduction in the alcoholic content of beer. Wine, on the other hand, was treated more lightly, domestic sales being pegged (on a monthly basis) at 1941 levels.

Pre-war Australian wine production had been concentrated on fortified wines (and brandy); the great expansion into table wines was to be a post-war phenomenon. Pre-war exports of around 4,000,000 gallons of wine annually, amounting to half the total output, had gone mainly to Britain, which however banned all imports in January 1941. (An easing of the ban in 1942 was of little relevance to Australia because of shipping

difficulties.) Because a substantial part of the vineyards were in irrigated areas originally developed in schemes of land settlement for ex-soldiers from the war of 1914-18, the wine industry was politically sensitive, and the government more responsive to problems of the accumulating stocks which could no longer be exported than to War Organisation of Industry's ideas on rationalisation. Pleas to maintain the core of the industry were reflected in the reservation by the Manpower Directorate of the more important skilled and experienced workers in the wineries.

The firmer treatment of beer and spirits included among its justifications the desire to reduce what was regarded as excessive drinking in wartime. Whether in the event this improved labour productivity is open to debate; production of "home brew" of highly variable taste and erratic alcohol content became almost a national sport, and queuing for the available legitimate supplies accounted for a not insignificant amount of lost time and absenteeism.

The industry, as represented by the Federated Wine and Spirit Merchants' Association, was largely successful in resisting proposals to cut alcoholic content and eliminate advertising, and was in no hurry to respond to the Department of War Organisation of Industry. It was not until August 1943 that the industry finally submitted a rationalisation plan, which the Department was, by then, prepared to accept on a voluntary basis. It provided for the reduction of the number of brands of spirits from 412 to 244, and of liqueurs from 28 to 5; bottle sizes to be reduced from 16 to 3. Packaging was to be the minimum needed to prevent damage, and deliveries were to be reduced in frequency, for example twice a month to city retailers and once a month to suburban.

By that time the Manpower Directorate had left few reserves in the industry and the simplifications of packaging and restrictions in delivery approximated to what had been forced on most firms by loss of manpower, shortage of materials and curtailment of road transport. For the Association the value of recognition of the arrangement was the restraint imposed by the possibility of formal government orders on any firm seeking competitive advantage by departing from the agreed terms.

Matches

The match manufacturers made a remarkably prompt reply to Dedman's request for proposals for rationalisation.[8] They reported that they had already discontinued the production of book matches, and were producing only three types (safety, wax, and "strike anywhere"); packaging had been simplified; supplies to retailers were rationed; most (two-thirds) of labour employed was female. The reply indicated that special conditions had already forced the industry to most of the economies in production which War Organisation of Industry had in mind.

There were six factories, two in Sydney, three in Melbourne and one in Western Australia, but three of these were owned or controlled by the parent English company, Bryant and May Pty Ltd and the other three

[8] Joint letter to Dedman, 30 Mar 1942.

were small and one of them concentrated on "strike anywhere" matches. Concentration of production offered little scope and in practice would have involved mainly the disappearance of the larger of the two Melbourne firms not controlled by Bryant and May. The timber required for splints had been largely imported (from Canada) but by this time import licences were available only on occasions of special shortage; locally produced timbers, especially pinus radiata and hoop pine, were being used, though less satisfactorily. The chemicals required were still being imported (almost entirely from North America) but potassium chlorate was on the point of being produced locally; amorphous phosphorous was expected to be produced by the end of 1942; and local, if inferior, substitutes for paraffin wax were available.

Production, which before the war had been around 3,250,000 gross of boxes a year, was by early 1942 running about ten per cent lower and from twenty-five to thirty per cent below capacity, not because of labour shortage but because of reduced supply of materials. To meet the great expansion of Service demands (mainly for the various canteen services), supplies to retailers were being rationed, broadly on the basis of seventy-five per cent of their purchases in 1940-41 and this was creating no overall difficulties because many former civilians were being supplied through the Services, but retailers' and manufacturers' reserve stocks were at low levels; the proposed government emergency reserve stocks would require the equivalent of four months' production while new demands from the Americans were growing. The picture presented was of demands being precariously met by an industry which had already exhausted the economies of rationalisation.[9]

War Organisation of Industry was not content with the economies so far voluntarily adopted, and pressed for further simplification of packaging and general adoption of procedures for using less material—shorter and thinner splints to save timber, small matchheads to save potassium chlorate, and the use of an abrasive striking surface on one side only of a box to reduce usage of phosphorous. Some of these were already being adopted in areas such as Western Australia where there was only one supplier but it required considerable pressure to extend them to New South Wales and Victoria which were not only the large consumers but the scene of the most direct competition.

But it was clear that it was more important to rationalise distribution and as an instrument to this end the Department established a Matches Co-ordination Committee which included one representative each of the match companies, the Department of Supply, the Army Canteens Service, the Armed Services and others, the purpose of which was to bring together the main sources of demand and the suppliers. All members but one were soon convinced that the Canteens Service requisitions were excessive, basing supplies for all troops on estimated usage in New Guinea and

[9] The Tariff Board in its preliminary planning of coupon rationing was convinced that direct rationing of consumers was necessary and continued unavailingly to urge this; the Rationing Commission was insistent that the administrative complications made it essential to seek other solutions.

building up unnecessary reserves. It took hard arguing against the stubborn resistance of the Canteens representative and, ultimately, a threat to take the issue to the Cabinet, before he finally conceded a reduction of twenty per cent.

Allied with this, and facilitating later reductions in Service orders, was a drastic redirection of the available supplies of waterproof matches. Of "strike anywhere" matches a major supplier was Duncan's Limited, a Melbourne firm which was to be a war casualty, whose market was in Victoria. Unable to meet their whole former market they maintained supplies to Melbourne retailers and sacrificed part of their country market as, in their judgment, the lesser of two evils. Meanwhile wax matches, produced only in Melbourne, were sold to some extent in tropical Australia, still more in country areas, and especially in the coalmining districts of New South Wales, mute evidence of the miners' disregard of safety rules which prohibited the taking of wax matches into mines. Again interference with traditional markets was involved, but the Committee persisted so that the wax and "strike anywhere" match problems were effectively abolished by requiring that first priority in supply should be for Service use in tropical areas. The Committee proceeded on to secure modification of the manufacturers own retailer-rationing system, which in principle had been to supply seventy-five per cent of the quantity taken in 1940-41, and which did not take account of the wartime population movements which could leave some country areas oversupplied while areas where war factories developed were not given increased supplies.

But there were also problems of maintaining production and after 1942 War Organisation of Industry's chief interest was in assisting the industry to secure labour protection; in opening up new supplies of timber; and sponsoring its case for chemicals. Once the central distribution problems had been dealt with, other departments were prepared to let War Organisation of Industry pursue these activities and the real role of the Co-ordination Committee declined. Modest as the production problems of the match industry were, it was a good example, one among many, of how War Organisation of Industry was increasingly drawn into a positive production-promoting role which could involve negotiating with a variety of other departments and with State agencies.[1]

[1] A minor serio-comic example of the way other departments were often prepared to allow War Organisation of Industry to assume responsibility occurred when the supply convoy to accompany the American landing at Guadalcanal was loading in Melbourne. In expectation of heavy shipping losses and violent Japanese reaction which would prevent early resupply, scale of provision was large. On the morning of the day the convoy was to sail the War Organisation of Industry chairman of the Matches Committee found himself suddenly surrounded by: an American colonel who insisted that his requisition for matches must be filled; the general manager of Bryant and May who maintained that the requisition was for half the total wholesalers' stocks in Australia, four months' production, and he would not fill the requisition except on explicit written government direction; a junior Supply officer who refused to give that direction because his supervisor, then in North Queensland, could not be contacted to authorise that; and a naval officer who insisted that the convoy would sail at 6 p.m. The chairman informed the colonel his requisition was cut in half; ordered (orally) Bryant and May to deliver to wharf by 4 p.m.; and told the naval officer to be ready for late loading. The group scattered to telephones, the Supply officer staying long enough to say: "I don't know what my boss will say. You have no authority, but I'll make no report until tomorrow." The general manager of Bryant and May wryly recalled that it was several days before he realised he had forgotten his demand for a written direction, and was taken aback to realise he had accepted an oral order from an officer and a department who formally had no authority in relation to Service requisitions.

Newspapers

Newspapers exemplified an industry where the resistance of both proprietors and trade unions was strong enough to prevent any formal rationalisation plan. Ward, Minister for Labour and National Service, who was no friend of the Press, initiated matters in May 1942 by urging Production Executive that "the newspaper publishing and distributing business appears to me to provide a fertile field for immediate investigation and action". He pointed out that daily papers were still being published in several editions; a large proportion of space was occupied by headlines; delivery vans of rival newspapers covered the same routes; their reporters covered the same ground; there was a shortage of newsprint.[2]

Such a report, direct to Production Executive, was an effort by the Manpower Directorate to press War Organisation of Industry to give priority to the industry in its rationalisation plans. The Department's response was to provide a preliminary report concentrating on Melbourne where there were daily three morning and one afternoon newspapers as well as a sporting newspaper on Saturdays. The daily papers had three editions, and defended them by arguing that the only waste was in the "spoils" involved in each new printing run (averaging 3,000 papers per day at the *Herald*). Duplication occurred in deliveries but the morning newspapers had largely eliminated it. In Sydney there was greater waste (five editions with some newspapers) and nothing had been done to reduce duplication in transport.

Production Executive directed Dedman and Ward to confer with proprietors and secure their reactions to a series of proposals: elimination or reduction in size of Sunday newspapers; elimination of sporting newspapers; daily newspapers to be cut to, perhaps, four pages; no multiple editions; a pooled distribution service; pegging of circulation. The reaction of proprietors was predictable:

> newspapers are an essential industry. We would go further and say that they are a vital necessity and that a democracy cannot exist without a free press. So far as the war effort is concerned, any great effort would be impossible without informed public opinion. We think you cannot get that opinion without a strong press. Consequently we qualify any undertaking we give by the proviso that there should be no restriction upon the free and widest possible distribution of news. With that qualification you have our assurance of complete support and co-operation.[3]

Each of the proposals raised by Production Executive was then met in turn with blank resistance, the proprietors arguing that they had already done all they could, that the specific proposal would have disastrous effects on a free press, and that only under duress would they comply. The Australian Journalists' Association, the printing and other trade unions were equally adamant in opposition. The concerted view was that labour available to the industry should be pegged at 55 per cent of

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[2] Production Executive Agendum 41/1942, 13 May.

[3] Quotation is from R. G. Henderson (*Sydney Morning Herald*) at a conference on 18 Jun. 1942.

pre-war, and then the industry left to itself. (Reduction in labour then employed ranged from 21 per cent on pre-war levels for one large Sydney proprietor, to 47 per cent in Queensland.)

At this point pressure for rationalisation of the kinds favoured by War Organisation of Industry largely ceased and Dedman proposed to Production Executive what was virtually the proprietors' proposal: that labour in daily papers be reduced, in two stages, by 45 per cent of pre-war levels; that the Manpower Directorate hold the employment level stable; and that non-metropolitan newspapers be reviewed in search of labour. Duplication of services and wasteful use of labour should be dealt with by newspapers themselves.

Lobbying by proprietors, journalists and unions had been intense. There were among the Ministers and public servants involved those who reacted cynically to the enthusiasm for the slogan of a free press, but who, at a more serious level, were genuinely concerned about the threat to free dissemination of news and opinion latent in Production Executive's original proposals. Pegging of labour supply, rationing of newsprint, the growing restrictions on land transport, petrol rationing and the like were forcing restriction and economy without requiring administrative decisions which could hardly avoid being coloured by subjective judgments as to what sort of publication was proper in wartime (such as Production Executive's readiness to ban sporting newspapers).[4]

Refrigerators

In the case of refrigerators the number of manufacturers was small and the main issues were division of the available supply between the Services and other essential users such as the Allied Works Council and the civilian market, and a long drawn out conflict between the Department of Munitions and the Division of Import Procurement over their respective fields of operation. The stage was set early in 1942 by Prohibition of Non-Essential Production Order No. 2 which restricted production and sale by a licence system to be controlled by Import Procurement, chosen because, among other points, many parts required were imported.[5] Munitions, which was concerned with arranging production to meet Service orders, took the view that these did not require licences, and temporarily, after stiff exchanges, it was agreed in October that control of production should rest with Munitions and of distribution to the civilian market with Import Procurement.

This left wide areas undefined, particularly questions of priority between orders for essential war purposes and the civilian market, and the types of refrigerators which should be produced; and provided scope for War Organisation of Industry to exercise its co-ordinating functions. A committee of War Organisation of Industry, Treasury and Supply (Production Executive pointedly excluded the warring departments) concluded

[4] The *Australian Women's Weekly* appears to have been one of the publications most widely read in the army.

[5] 21 Feb 1942.

that there should be restriction of production to a few types and sizes, while recognising that requirements ranged from small domestic types to the large coolrooms needed by the Allied Works Council. Production of all refrigerators should remain with Munitions, which (since it now controlled production of parts previously imported) should also control both production and distribution of spare parts. Distribution of the limited supply of refrigerators available to the civilian market should remain with Import Procurement which was named as the authority to assess essential civilian needs; priorities between Service and civilian needs were left to be settled between the two departments. R. V. Keane[6] as the Minister responsible for Import Procurement agreed, with bad grace, provided disputes over priorities should be settled by Production Executive, and that fixing of prices and checking of costs for supplies to the Services should be the sole province of the Prices Commissioner (who was attached to his department).

Meanwhile War Organisation of Industry had completed (by September 1943) a rationalisation plan for refrigerator servicing which provided for licensing, and a modified form of zoning. This plan reiterated the control over both production and distribution of spare parts by Munitions and the jurisdictional dispute flared again, the Division of Import Procurement finally gaining control over spare parts for the civilian market in February 1944. The Division proceeded to press two further issues, its desire to restrict Munitions control of distribution to the armed services and Allied Works (excluding for example all other government orders) and the question of control of prices and the associated cost investigations.[7]

The inflexible position of the two departments was expressed in statements by Keane and N. J. O. Makin,[8] Minister for Munitions, in submissions to Production Executive.[9] That body bypassed the two Ministers, directing the Prices Commissioner and the Department of Munitions Finance Director to find a solution which in effect recognised the Prices Commissioner's primary role in price-fixing but provided for regular conference with appropriate Munitions officers about the basis for specific prices determinations, cost investigations and the like.[1] The other main dispute, of areas of control over production and distribution, was resolved a month later by the issue of an order embodying, at last, Production Executive decisions of September 1943: Munitions was to issue permits for manufacture and sale of refrigerators and parts to the armed forces, Import Procurement to control permits for sale and purchase to civilian buyers. Munitions was to be the buyer for all Commonwealth government requirements. All production of refrigerators was to be controlled by

[6] Hon R. V. Keane. MHR 1929-31; Senator 1938-46; Min for Trade and Customs 1941-46. Died 27 Apr 1946.

[7] Dedman to Keane, 8 Mar 1944: "I am unable to gather from your letter whether it is possible to achieve" agreement between the two departments.

[8] Hon N. J. O. Makin. MHR 1919-46 and 1954-63; Speaker 1929-31; Min for Navy and for Munitions 1941-43; Aircraft Production 1945-46; Aus Ambassador to USA 1946-51. B. Petersham, NSW, 31 Mar 1889.

[9] Supplements 3 and 4 to Agendum 22/1943.

[1] Approved by Production Executive, 12 Jun 1944.

Munitions; storage and sale for civilian purposes was to be handled by Import Procurement.[2]

By this time the issues had lost most of their substance. Within four months it was recognised that the declining further needs of the Services could be met by the normal procurement procedures of the Department of Supply. (Allied Works was invited to act independently.)

Furniture

Rationalisation of furniture manufacture was sought very early (February 1942) by War Organisation of Industry but in the event substantial action was not achieved until September 1943. The first reaction of the trade was vigorous opposition to any form of concentration of the industry and to proposals for standardisation on "utility" furniture. Instead it urged primary reliance on ceiling prices which would have curtailed production of luxury designs and qualities rather more than wartime problems of labour and materials and restricted demand would have done in any case, but would have left manufacturers free to pursue their own interests within this constraint. War Organisation of Industry countered by producing lists of "essential" furniture and (in Victoria, South Australia and New South Wales) some prohibitions of "unnecessary" items. There were many small manufacturers and large amounts of furniture were required for the Services, and it became apparent that politically acceptable action would not be achieved quickly. Accordingly the Manpower Directorate accorded reservation to woodworkers, machinists and polishers; and labour protection to most bedding manufacturers, pending development of a rationalisation scheme.

War Organisation of Industry adopted a hard line, stating its objective as first to prohibit manufacture of all furniture except a small range of essentials, which would be produced to severely utilitarian designs; concentration of production would then follow.[3] The industry's response was to cling to its primary emphasis on ceiling prices, though a list of essential furniture items was put forward as a concession; standardisation of design was anathema as was concentration. In self-defence it turned to arguing the need to preserve existing establishments, skilled manpower and equipment, on the grounds that even if presently engaged on producing civilian furniture, they could be required for direct war work; an extensive advertising campaign spread this view.

Manpower, having long held its hand, accordingly cancelled, early in 1943, its deferment of cabinetmakers, wood machinists and polishers; and replaced this with selective protection of those establishments engaged wholly or partially on war work. The industry's maximum price approach was implemented but only after protracted discussions and conferences so

[2] Control of Refrigerators and Refrigerator Equipment Order, 3 Jul 1944.

[3] This, the first recorded clear statement of the target, was in letter 22 Oct 1942 to the Manpower Directorate.

that it was not until July 1943 that a schedule of maximum prices for certain specified types of furniture was implemented.[4]

War Organisation of Industry meanwhile had gradually retreated from its hard line as it became more fully aware of the political and administrative difficulties of imposing standardisation on an industry with a large number of firms of varying size; with a great diversity of types and styles of product; unusual in that manufacturers dealt directly with retailers as final buyers but hardly at all with wholesalers; which was producing for a partly civilian partly Service market, and engaged also on direct war work other than furniture. The Department finally settled for a plan which licensed manufacturers, prohibited some eleven items, and explicitly permitted twenty-four others as well as items for hospital, Service or government use. Provision for permits and inspection were complementary to conditions in the prices order concerning quality and style.[5]

By this time, once the objectives of concentration and full standardisation had been surrendered, the operations of Manpower and of war-created shortages had largely achieved what other economies and contraction War Organisation of Industry could hope for—a good example of the kind of compromise solution which could emerge, but also of the protracted negotiation and argument that mutually acceptable compromises could entail.

The Retail Trade

With the urgent search for labour in 1942 retail trade appeared to the Department of War Organisation of Industry as a candidate for reorganisation to release labour, particularly as the Manpower Directorate also saw retailing as a fruitful source of labour. Retailing had not been very forthcoming in response to the early requests for proposals from industry committees, and meanwhile war conditions had produced considerable changes, in directions which the Government regarded as undesirable, in the structure of retail trade. Shortages of imported or other supplies, loss of labour, government restrictions such as those on transport, had forced out of business the most vulnerable rather than the least essential classes of retailer, and those forced out inevitably tended to be small shopkeepers many of whom were unsuitable for war work. To the social problem of hardship concentrated on small suburban or country town shopkeepers was added the conflict with government policy of keeping large crowds out of the cities at a time when bombing appeared an imminent threat. (The abolition of the traditional one late night shopping a week was directly dictated by this fear.)

The Manpower Directorate in July 1942 struck the first major blow in South Australia. In urgent search for labour in newly finished munitions factories near Adelaide it issued a special order prohibiting retail employment of women between 19 and 26.

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[4] Prices Regulation Order 1146, 29 Jul. Production Executive only accepted the proposed scale after reductions of fifteen to twenty per cent.

[5] Manufacture of Domestic Furniture Order, 27 Sep 1943.

As yet Manpower did not have power to direct people to employment and it had to rely on persuasion and pressure to induce those disemployed to accept employment in the munitions factories.

So much friction and public criticism followed that War Organisation of Industry argued that Manpower should proceed no further with this type of action until rationalisation of retailing was explored. Dedman called a number of conferences with retailers' representatives in capital cities in November 1942 at which he presented to them objectives which the Government wanted examined:

(a) Closure of certain departments of departmental stores. (This might be dovetailed on a reciprocal basis, so that one store would keep open a department which its neighbour closed.)

(b) Closure of one or more stores where a single firm operates more than one establishment.

(c) Internal reorganisation in particular sections of a store so as to save the time of sales staff even at the cost of some reduction in service and convenience to customers.

(d) Complete merger of businesses now independent in order to save overhead.

(e) Establishment of two or more businesses on different floors in the same building.

(f) Establishment of joint buying organisations.

(g) Restrictions on sales in the city area of certain types of goods more conveniently marketed in the suburbs (for example some types of foodstuffs, sweets, flowers, plants, perhaps some drapery lines). The government would need to watch carefully this kind of development in order to ensure that the needs of customers could be adequately met.

(h) Elimination of special facilities such as monthly credit accounts.

The stores were also urged to make more use of part-time workers (for example married women) with a warning that they should not be persons available to be diverted to war work.

If these Draconian proposals were meant to produce active measures from the trade by foreshadowing what might happen if co-operation were not forthcoming they failed. There was some oral endorsement from trade associations which saw relative advantage to themselves (the Suburban and Country Retailers' Association for instance) but generally the reaction of retailers individually and collectively was vigorously hostile, and shop assistants, trade unions, albeit in lower key, made their disapproval known.

Faced by antagonism and inaction the Manpower Directorate and the Department of War Organisation of Industry agreed on concerted action, the central notion of which was that the labour would be taken anyhow and the retailers could adjust themselves to operating with a reduced staff. (The Manpower Directorate had meanwhile acquired power to direct people to specified employment.) The plan for "extraction of labour from retail stores" contemplated broadly that shops would be permitted to retain sixty per cent of pre-war staff numbers (including key personnel). To keep the administrative problem of examining employment in a vast number of shops manageable, it was decided to confine the review to shops employing twenty-five or more, and in the case of smaller shops to those specialising

in the sale of what were regarded as non-essential goods. Retailers were warned that if their adjustment to staff reduction did not give priority to handling more essential goods and services, labour beyond the general forty per cent reduction would be withdrawn from offenders. That threat probably induced some "voluntary" approach towards the types of reorganisation put forward by Dedman. Certainly some large stores completely closed some departments and closed one or more of several buildings in which they operated.

Measured by the number of workers employed, the retail trade was the most important case where strength of opposition based on the fear of permanent loss of competitive position frustrated formal rationalisation plans, but the weapon for labour withdrawal directly achieved the central purpose of rationalisation: of releasing labour. War Organisation of Industry's role was in guiding the industry's subsequent readjustment along desired lines, both by indicating firmly the type of readjustment which would be welcomed and the further penalties of loss of labour which could be inflicted, and by the advice it gave the Manpower Directorate as to the basis for the countless specific decisions on individual shops and employees which had to be made. Given the resistance of the industry the administrative task of directly enforcing the desired reorganisation on a multitude of shops would have been unmanageable.

The Department of War Organisation of Industry's role was inevitably one that provoked hostility and criticism, at times more properly directed elsewhere. Its primary task in its rationalisation function was prohibition, denial, restriction, to be followed by positive action to put to the best use the resources left after diversion of whatever could be squeezed out for the grim purposes of war. From early 1943 onwards, its primary task mainly completed, the Department was more concerned with this latter aspect, and increasingly concerned, as the crisis of the war passed and the distant prospect of peace could be seen, with partial reversal of the concentration on war which had been its inescapable preoccupation in 1942. The unpopularity had been almost too readily accepted, for this other aspect of the Department's work was not at the time acknowledged, and it was appropriate that its Minister and a substantial part of its planning staff should pass over to the Department of Post-War Construction.

In its restrictive role the measure of the Department's success was its unpopularity. But it would be inappropriate to end the record of this phase without noting also that it had many positive aspects to its work. In particular, as one only of its "co-ordinating" activities it had had notable success in promoting new *ad hoc* administrative devices to reconcile divergent departments and to secure early recognition that "maximum war effort" implied also adequate provision for civilians. The Clothing Council, Food Council, Civilian Requirements Board were formal evidence of its concern. And it is appropriate to select as an example of its multi-

farious interests its initiating role in formulating a more liberal university policy than that of any other of the countries at war. And after the war Commonwealth financial aid to students, a part of that policy, became, with little modification in principle, the Commonwealth University Scholarships.

CHAPTER 8

RURAL INDUSTRY UNDER STRAIN

THE traditional gearing of Australian primary production to exports, especially to Britain, had not been substantially disturbed by two years of distant war. Inescapable reduction of exports, even complete cessation in some cases, did not change traditional attitudes, and the more obvious solutions to specific problems—stockpiling, restricted production, pooling for equitable distribution of proceeds—were guided primarily by the assumption that war meant transient interruption to old relationships, early restoration of which should be facilitated by wartime makeshifts.

To some extent war in the Pacific transformed these attitudes. Initially what had to be accepted was the blunt physical interruption to sea transport and the reduction of shipping available for exports to a level at which space could only be available, and that inadequately, for goods in the highest priority as assessed by the needs of Britain and of armed forces in the Middle East and India. This was succeeded by a realisation that the arrival of large American forces, together with the rapid expansion of Australia's own army and the planned return of troops from the Middle East, demanded substantial production of food and other primary products, often on a scale never previously contemplated in Australia. That realisation brought an awareness of the sharp fall in rural manpower that had occurred in the last months of 1941 and early in 1942, and of the need, first to prevent further loss and then, as the production demands took shape and could be assessed, to secure additional labour.

To the adoption of a more conscious and positive rural manpower policy was rapidly added acceptance of the need to plan the scale of output of many rural products, usually to plan for increase beyond what farmers could or would attempt in response to ordinary market incentives, by contrast with the emphasis in the first two years of war on restricting output and discouraging expansion. These things demanded organisational developments and changes, and the spread into rural production of new types of control. And, as the passing months made clear that in a range of important foods—dairy products, sugar, butter—not all demands could be met, the compulsion to ration consumers had to be accepted, and met, by organisations and procedures outside the area of rural production.

That the main outlines of the new situation were seen clearly enough early in 1942 is made plain by a cable to the Australian High Commissioner in London:[1]

> . . . with the changes in war conditions in the Pacific area it has been necessary to reconstruct, in its entirety, the Australian viewpoint of questions of production and distribution as our first essential duty is now to ensure that we produce and retain in Australia sufficient foodstuffs to meet the needs of our own and allied troops and make provision to keep sufficient in store for the additional troops arriving in Australia under the plans which are being formulated. The provision of

[1] 23 Mar.

foodstuffs for the essential needs of the civilian population is now also a matter which requires more consideration than in the past in view of problems relating to isolation and breakdown in transport facilities. On the other hand we are mindful, firstly of the necessity and obligation on the part of Australia to help to the utmost in feeding the fighting services in India and mid-East, and we will to the greatest extent possible assist in this connection. We realise therefore the necessity of delivering such supplies to the United Kingdom as are within our power, and we will to the utmost of our ability continue to send particularly bulk supplies to United Kingdom. Finally we must have an appreciation of our local economy in relation to primary production, and here again we are desirous, as far as possible taking into consideration wartime developments, of maintaining such trade as has been built up in the past and which in certain directions is still essential for the preservation of primary industries.

The concern of the Services over their own and the Americans' food supplies, in the new situation, led to a development which touched off a progressive reorganisation of wartime food control. In this the recognised need to solve urgent problems of specific forms of production; and the need to hold a balance between local consumption and export (especially to the United Kingdom); and between civilian needs and Service demands, were inextricably mixed with a struggle for power between the Department of Supply and the Department of Commerce, and to a lesser extent the Department of War Organisation of Industry, complicated by a clash of personal ambitions and the issues inherent in a federal system in which agriculture was traditionally a State field but in which wartime requirements made Commonwealth intrusion inevitable.

In March 1942 the Minister for Supply announced the creation within his department of a Defence Foodstuffs Division under G. A. Davis as Controller of Defence Foodstuffs, to control production and supply of all foodstuffs to Australian and Allied forces, and the export of foodstuffs to overseas forces; to develop schemes for food production including large-scale vegetable farming and food processing; and to co-operate with the Department of Commerce and other departments in maintaining civilian food supplies. The Defence Foodstuffs Committee which had concerned itself with supplies to the armed services was reconstituted as the Defence Foodstuffs Advisory Council, associated with the new division, which in one sense was merely an enlargement of the Foodstuffs Division of the Contract Board. But that had been concerned primarily with procurement. The new division had much wider powers, and in the situation of early 1942 these functions were bound to expand very greatly. Ambitions nursed in the Department of Supply and Development that the new division would become the equivalent of the British Ministry of Food might well have been realised.

The move had the virtue of bold simplicity in recognising that early in 1942 "food" was a basic central problem which needed to be considered as a whole. But it involved or plainly implied an invasion of substantial parts of the activities of other departments, which appeared the more serious because it also promised aggrandisement of the already large

Department of Supply and Development. A new and distinct Department of Food might have had somewhat more chance of acceptance. Several weeks of intensive negotiation issued in the creation of the Australian Food Council in a form designed to give due weight to the interests and authority of all other departments concerned with food, but to vest ultimate control in the Department of Supply.

The first meetings of the Food Council presented a picture of the problem of co-ordinating policy and action in relation to food to handle which the Council had been formed, and also of the latent conflicts and difficulties. J. A. Beasley, Minister for Supply and Development, was chairman, and W. J. Scully,[2] Minister for Commerce, deputy chairman, symbolising the abruptness with which food supply had displaced export promotion as the central issue. The point was underlined by G. A. Davis, the recently created Controller of Defence Foodstuffs, appearing as executive member, while the multiplicity of departmental interests and the many facets of food supply explained the representation of the Departments of Navy, Army, Air, the Directorate of Manpower, the Department of War Organisation of Industry, the Rationing Commission, the Department of Health, and the Prices Commissioner.

First business at the initial meeting of 11th May was to consider a draft "charter" in the form of proposed National Security Regulations, the wording of which contained a basic ambiguity in authorising the Council to "provide for action" in relation to a comprehensive list of activities the first of which was "the production and supply of food in Australia and the distribution of food as between the defence forces and the civilian population". The Navy wanted assurances that the rights of the Services would not be infringed, and the draft was remitted for discussion between the Department of Supply and Development and the Department of Commerce, the departments whose interests were most directly in conflict in the new situation. After discussions over two months the proposal to give the Council authority by National Security Regulations was dropped and there was substituted a "charter" for War Cabinet approval. The key section defining functions and powers read:

6. Subject to the directions of the Minister:

(1) The Council, as a central authority, shall be responsible for submissions, recommendations or decisions (as the case may be) on matters relating to food and the means of production, supply and distribution of food and all incidental powers conducive or incidental to the object of this Charter.

(2) The Council shall have power and authority to formulate submissions and recommendations, and where matters of policy or importance are associated or involved, have the same referred for decision by Government, and in respect to its remaining functions may make decisions in relation to:

(a) the method of utilisation of the sources and means of production, manufacture and supply of food within the Commonwealth and the distribution of food as between the Allied defence forces and the civilian population and as well, wherever practicable, for purposes of overseas distribution;

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[2] Hon W. J. Scully, MLA, NSW, 1927-37; MHR 1937-49; Min for Commerce and Agric 1941-46; Vice-Presdt Exec Counc 1946-49. B. Bective, N.S.W., 1 Feb 1890. Died 20 Mar 1966.

(b) surveys of Australian food capacity and preparation of plans to ensure the effective production, supply and distribution of food within the Commonwealth and, wherever practicable, for overseas distribution;
(c) the investigation and development of Australian sources of food supply; and
(d) any other matters concerning food specified by the Government.

7. The recommendations or decisions of the Council, after approval or confirmation where necessary by the Government, shall be implemented by the Commonwealth Department of State within whose functions the relevant activity would normally fall, and each Department so affected shall take all steps necessary to implement decisions made and shall act in co-operation, where necessary or appropriate, with other instrumentalities and organisations of the Commonwealth and State instrumentalities and organisations with a view to the utilisation of their respective powers and facilities in the action to be taken.[3]

Essentially this was a compromise. The formulation of food policy was made a chief function of the Council, and in non-policy matters—a distinction which left scope for argument—it had power of decision. But the implementation of decisions was withheld from the Council's control, and explicitly left with existing specialised authorities. Moreover, an explanatory statement accompanying the charter stressed that any aggrieved department retained its right to press the issue at Cabinet level.

The Food Council might have proved a useful meeting place for exchange of views, co-ordination of information, and agreement (not decision) on action within the sphere of particular authorities. But the conflicts of interest, jurisdictional issues and personal ambitions were too profound. The basic jurisdictional clash was between the Department of Supply and the Department of Commerce, but a rising competitor was the Department of War Organisation of Industry which, becoming progressively concerned with rural matters, first used a number of special advisers,[4] and then, in mid-1942, established a Rural Division. Other Commonwealth agencies sought representation or at least the right to send observers, as did the American Services. There were times when observers at meetings outnumbered members. Moreover, the Australian Agricultural Council continued apart. As a body primarily representing States through their Ministers for Agriculture, it was too important politically for its views, whether on broad policy or specific actions, to be disregarded.

At its first meeting the Food Council directly challenged the Department of Commerce in its traditional field by professing to decide that food exports should be subject to the approval of the Minister for Supply and in subsequent meetings purported to "direct" action by various other bodies. An "executive", entirely of public servants, was set up to function between monthly Council meetings, but necessarily found itself confined to minor matters and to persuasion rather than decision.

Other authorities beside Commerce felt threatened. In particular the States were concerned at what appeared to be a threat of major Federal invasion of their role in rural industry, and especially of that of their

[3] Annexure C (Charter of Australian Food Council) presented to meeting of Australian Food Council, 10 Jul 1942 ("approved for submission to War Cabinet"), File M18511/8, Commerce and Agriculture.

[4] For example, Ian Clunies Ross, J. G. Crawford.

departments of agriculture, in which, it was suggested with some reason, was the country's chief reservoir of experienced professional officers. Discussion of these matters, much of it unrecorded and often acrimonious, issued in Cabinet rejection of the ambitions of Supply and reassurance to the States by the choice of an administrative head for a reconstructed Department of Commerce.

The Department of Commerce succeeded in having its functions enlarged and its name extended to Commerce and Agriculture, and on 25th November 1942 Curtin announced baldly "The Government has appointed Mr F. W. Bulcock,[5] M.L.A., Minister for Agriculture of Queensland, to the position of Commonwealth Director-General of Agriculture". The Department of Supply, through the Food Council, sought with little success to confine his activities to restricted types of food production, especially vegetables. One last attempt to maintain interdepartmental co-ordination was made by the appointment in April 1943 of a Food Executive of Cabinet, comprising the Ministers for Supply (chairman), Commerce and Agriculture, War Organisation of Industry and the Treasurer, with the Director-General of Agriculture in Commerce and the Controller of Defence Foodstuffs in Supply as joint executive officers. The Executive was to report direct to the Prime Minister. The Food Council was to remain as an advisory body but the Food Executive was to have executive power, through its chairman. But the experiment had a life of barely six weeks and the Food Executive could do little more than negotiate the final solution, which was to reorganise the Department of Commerce and Agriculture as the primary food authority and the agency for co-ordinating the work of other departments in relation to food. Late in May, Scully, as Minister for Commerce and Agriculture, replaced Beasley as chairman of Food Executive and also of the Food Council; a new post, that of Commonwealth Food Controller, was created and attached to the office of Secretary of the Department of Commerce and Agriculture. The Food Council was allowed to lapse and the Food Executive's existence was purely nominal with decisions taken in practice by Production Executive. The whole staff of the Defence Foodstuffs Division, except the Controller, Davis, was transferred to the Department of Commerce and Agriculture which thereafter was responsible for meeting Service requirements.

For all the limitations on its effectiveness for its avowed purpose, the Food Council during its existence did provide a sounding board and a focus for discussion, and its agenda reflected the shifting nature of the problems of food production and distribution. Securing a place on the agenda for an item was at least an effective way to make the existence of a problem known, and much informal co-operation between departments was promoted; it could also be a way of bringing the pressure of collective opinion on an individual or an organisation even when no

[5] Hon F. W. Bulcock. MLA, Qld, 1914-42; Min for Agric 1939-42; C'wealth Dir-Gen of Agric 1942-51; Agric Coun for Aust in London 1952-59. B. Mt Arapiles, Vic, 6 Jun 1894. Died 19 Jan 1973.

formal Council action followed. In particular, Council discussion could be effective in making the Services and the Americans aware of the impact of their demands on civilian consumption. The Council therefore had a value, not easily assessed, which was not measured by its formal actions and was masked by the conflicts of jurisdiction.

Its first three or four meetings were devoted to a mixture of general policy questions and specific problems. Thus the first meeting in May 1942 concerned itself with meat, sugar and rice, but also with general food export policy and especially with United Kingdom food needs. The second ranged from the minor problems of Canberra abattoirs to the preparation of a survey of production and requirements of food generally. More and more the topics discussed came to be mainly individual products, sometimes major developments such as the vegetable production programme, sometimes as small as a temporary interruption of the supply of baby food in Western Australia. In part the change in pattern represented the settlement of lines of policy, but primarily it reflected the fact that the chief effectiveness of the Council came to be in making known specific supply difficulties, and smoothing the way to co-operative solutions, usually outside the Council. Thus, for example, the meeting of February 1943 devoted most of its time to examination of questions concerning sugar, vegetables, potatoes, dried vine fruits, eggs, meat, salt, chocolate, rice, margarine, macaroni, canned fruit and citrus fruits.

There were other, more permanent, developments of instruments for the implementation of rural production policies at the grass roots level of the local district and the individual farm. The most noteworthy of these were the adoption of a system of target production figures, under the name of production goals, a concept originating in the Rural Division of the Department of War Organisation of Industry; and the organisation of a network of District War Agricultural committees for which, basically, the Directorate of Manpower was responsible.

In the execution of the comprehensive functions allocated to the Department of Commerce, even before the decisions of May 1943, a number of new agencies of control were established. Control over fertilisers was instituted by regulation in August.[6] An Australian Flour Industry Committee was created in October with power to control the production and distribution of flour;[7] with a similar Malt Industry Committee in March 1943;[8] an Australian Potato Committee had been established in April 1942.[9] These were instances where a specific organisation and explicit legal authority were felt to be necessary; more sweeping authority was claimed by the 1943 Food Control regulations in which the powers conferred on the Secretary of the Department of Commerce as Controller-

[6] Fertiliser Control Regulations Statutory Rules 1942, No. 340.
[7] Flour Industry Regulations, Statutory Rules 1942, No. 444.
[8] Malt Regulations, Statutory Rules 1943, No. 62.
[9] Potatoes Regulations, Statutory Rules 1942, No. 199.

General of Food were comprehensive.[1] He was authorised to exercise powers, formally conferred on his Minister, to control "the growing, production, manufacture, processing, distribution, disposal, use and consumption of food, foodstuffs, fertilisers and fodder", and in pursuit of these powers might, for example, give directions as to the amounts to be produced, as to the order of priority to be accorded to any product, to prohibit production of any product, to control packing and distribution and so on. In short, all power to exercise control in accordance with government policy over food, fodder and fertilisers was centralised in the Department of Commerce.

THE STATES' ROLE IN AGRICULTURAL PRODUCTION GOALS AND DISTRICT COMMITTEES

In July 1942 the Department of War Organisation of Industry proposed to the Food Council that "production goals" be established for a variety of primary products, as a guide to policy formulation and administration. It was recognised that weather and other unpredictable factors would make actual production diverge from the target figures, but their establishment was intended to serve a number of purposes:

(a) the establishment of goals would give various administrative bodies a basis for planning, for example allocation of labour, supply of fertiliser, provision of transport facilities, with each authority basing its activities on the same target figures;
(b) the preparation of "goals" would bring to light problems, especially of manpower, while these were still open to correction;
(c) producers would have a clear guide as to what was expected of them.

The Food Council approved the general plan and appointed a subcommittee (Departments of Commerce, Supply, War Organisation of Industry and the Directorate of Manpower) to prepare a set of goals, on an Australia-wide basis. It was intended that State Departments of Agriculture should break down these goals into district quotas, after agreement on division between the States had been reached through the Standing Committee of the Australian Agricultural Council. The first set of goals was submitted to the Food Council in September, expressed mostly in physical quantities of output, and called for large increases, over 1941-42 figures, in butter, rice, dried fruits, potatoes, field peas, peanuts and vegetable seeds. The Production Executive approved the general plan and the specific goals proposed, except for butter and cheese which were deferred until other matters connected with the dairy industry were decided. Two months later butter and cheese goals were approved at somewhat higher levels, butter, for example, at 190,000 tons in place of 161,000 tons.

Closely associated with the development of production goals was a scheme for District War Agricultural Committees, for which the Cabinet in September allocated £50,000. Each committee was chaired by a field officer of the relevant State Department of Agriculture, and was to include

[1] Food Control Regulations, 28 Jun 1943, Statutory Rules 1943, No. 165.

a producers' representative, a businessman, a small farmer, an employees' representative and the local National Service Officer. In origin the primary function was to seek the best means, particularly in utilising labour, to achieve the district production goal, but inevitably these committees became on the one hand the means by which control reached down to local areas and information and criticism flowed back, and on the other, the agency for organising local self-help and informal co-operation on all problems of agricultural production. As such they worked extremely well. In particular they recognised the key place of State Departments of Agriculture which always had to take a major role in the implementation of policy, for agriculture was a State function and these departments were the ones with the field staff and the detailed local knowledge essential for the task.

Nevertheless, there were difficulties born of the very success of the scheme. Other Commonwealth departments with rural problems made direct contact with the Committees and the Department of Commerce complained, with justice, that the Committees were being overloaded with tasks peripheral to their main manpower and production tasks, and were becoming confused as to their responsibilities. The Production Executive in February 1943 affirmed the principle that District War Agricultural Committees were controlled by the Department of Commerce and other departments should either not make direct contact or do so only after arrangement with that department.[2] The most important other authority was the Directorate of Manpower and eventually the respective roles of the Directorate and the District War Agricultural Committees had to be precisely defined. The Committees were immediately responsible for "static" labour of the district, although the Directorate of Manpower reserved final overriding authority. They were responsible for organising all local labour and labour by part-time women's organisations, and also had authority to allocate any seasonal labour sent to the district by the Directorate of Manpower. The Directorate, on the other hand, retained direct control over the Women's Land Army and over all recruitment outside the district of seasonal and casual labour.[3]

LABOUR FOR RURAL INDUSTRY

Manpower for rural industries had not been a major issue until early 1942, for the simple reason that not until the latter part of 1941 was there any significant decline in rural employment, and even then it was accepted that in particular industries a considerable reduction could be tolerated or even—as in wheat—welcomed. By early 1942, however, the position had changed dramatically. Total employment fell sharply as the result of call-ups and voluntary enlistments and because, as war-promoted secondary industry expanded, it proved very attractive compared with the low rates of pay and often poor conditions of rural work. Total rural male employment fell by some 70,000 between mid-1941 and

[2] Production Executive Decision 229, 17 Feb 1943.
[3] Director-General of Manpower, Circular Instructions, 17 Sep 1943.

mid-1942. The large new demands of 1942 for food of particular types could be met only to a limited degree by a changeover in crops on particular farms, while the prevalence of family farms and the reluctance of permanently employed rural labourers to move—except to urban employment—meant that much rural labour was not mobile geographically. There were, moreover, behind the formal statistics of employment, important restrictions on the ease of recruiting particular classes of labour. In some industries, particularly dairying, the family farm was predominant and there was strong resistance to replacing by a hired stranger a male member who left the farm whether for the army or a factory, a resistance only partly explained by the need to pay an adequate wage to the stranger. Seasonal workers, many such as shearers or cane-cutters requiring both skill and robust physique, were given strong incentives to abandon seasonal work for the duration of the war, and to take town employment or permanent work on small farms because they thus secured reservation from call-up.

The overall employment picture is shown in the following figures, which, it should be noted, reflect, for 1942 and 1943, the effect of deliberate and varied efforts to hold labour in rural work.

RURAL INDUSTRIES

Middle of year (approx.)	Estimated male employment ('000) Owners relatives etc.	Permanent employees	Total permanently engaged	Temporarily engaged	Total
1939	292	100	392	102	494
1940	294	101	395	102	497
1941	284	96	380	92	472
1942	256	83	339	62	401
1943	239	76	315	45	360

Source: *Production Bulletins.*

The first action in 1942 was to increase the extent to which particular classes of workers were reserved from military service. In September 1939, for example, foremen, managers and working principals over 25 had been reserved if in charge of three or more hands; farm-hands who were the sole male employee were reserved if over 35, and so on. Over the next two years reservation was extended both by adding new categories and by lowering reservation ages. More comprehensive changes followed the creation of the Directorate of Manpower which had to face the large reduction in rural employment initiated in late 1941. Under the new Schedule of Reserved Occupations rural industries collectively were placed in priority 2, that is, the aim of the policy was to be maintenance of existing levels of employment, while accepting or promoting reduction in particular classes of production of lesser importance. For certain particular occupations total reservation was prescribed while, for example, all permanent farm-hands over 30 were reserved. To supplement these

general prescriptions the labour permitted to remain on particular farms was related, in some industries, to the scale of operation, a principle first adopted in dairying in April 1942. Another example was beekeeping where the farmer having up to 250 hives was allowed one physically fit man. Less formally, the broad principle was applied very widely through the use of the District War Agricultural Committees whose local knowledge enabled them to relate the allocation of labour to the capacity and needs of individual farms. In other cases different methods were adopted in applying the same principle. Thus the vegetable growing programme of 1942 involved the Commonwealth in making contracts with farmers to grow vegetables under the supervision of State Departments of Agriculture officers; this made it possible to endorse the contract with particulars of the labour required, all men involved being automatically reserved from call-up.

Early in 1942 the supply of labour to rural industry became a matter of public controversy, and the Government found it politically convenient to direct more comprehensive restriction on enlistment of rural workers, initially as a temporary measure, which was all the easier to adopt because by then total enlistments had provided the armed forces with greater numbers than they could quickly digest. Accordingly, in May the Directorate of Manpower determined that call-up should be deferred for all persons employed full-time in a wide range of products—meat, wheat, wool, dairy produce, vegetables, pig meat, sugar, fruit, rice, tobacco, cotton and honey. Adopted as a temporary measure, it proved permanent. Repeated in July it was reiterated in June 1943: "Sterner measures are necessary (a) to hold intact the present labour force and (b) to ensure that it is producing only the commodities really needed and those in the quantities determined on."[4]

All these, however, were primarily negative measures, designed to prevent the outflow of labour. Other, more direct measures, were required to increase, when needed, supplies of particular sorts of labour and to channel it where required.

To facilitate recruitment of experienced seasonal workers, especially shearers and cane-cutters, a "seasonal workers' register" was introduced in May 1942 on a voluntary basis. Initially South Australia was omitted and in Queensland the register was confined to sugar workers. As the register was voluntary and recruitment was mainly through normal channels, it was intended to build up information as to available seasonal workers, who were given a strong incentive to register by a provision that an experienced worker (the test was that he had worked as a shearer or in the sugar industry in 1940 or 1941) on the register could leave a protected occupation temporarily to go shearing or cane-cutting.[5] In

[4] Director-General of Manpower to Department of Commerce and Agriculture, 4 Jun 1943.

[5] The Controller of Woollens complained in July that so many shearers left textile work under this clause that production was seriously affected.

September the register was extended to South Australia, and shearing was included in Queensland.

After this restricted experience the Directorate of Manpower found the device so useful in locating seasonal labour that it was extended in March 1943 to cover cattle-slaughtering, jam and fruit canning, fruit and vegetable dehydration, manufacture of butter, egg packing and wool handling, and intermittently thereafter the same procedure was adopted to meet particular labour shortages as they developed.

From time to time, when a particular seasonal need for labour was pressing, the Directorate of Manpower made special efforts to organise temporary labour supply outside its regular procedures. Thus, late in 1942 it appeared necessary to encourage farmers to cut hay, and the Directorate instructed its officers to make a special effort to secure labour by such means as recruiting casual labourers in country towns, organising week-end work by groups of public servants and business employees, and vacation work by university students and school pupils, and by directing conscientious objectors and aliens to this work.

An important source of experienced seasonal labour for short periods, such as planting or harvesting, was developed during 1942, and was thereafter used as occasion arose throughout the war. The large call-ups into the Army of late 1941 and early 1942 meant that many thousands of men were located in training camps or were held in areas remote from active operations. An obvious solution to seasonal need for rural labour was the granting of leave, whenever this was acceptable to the Army, to suitable men. Some loose general rules, covering release for a period of three weeks, for seeding, were circulated by the Directorate of Manpower in May. Many Army commanders were over-free in giving approval and many employers made, successfully, direct application to particular camps, leading to "uncontrolled releases of men for various seasonal industries".[6] Accordingly it was provided that the Army would grant leave only on the request of the Deputy Director of Manpower of the particular State, and all requests for such labour had to be made to his office, which, in practice, meant that most requests had to be first approved by the relevant District War Agricultural Committee. Various classes of Army personnel were also declared unavailable, especially those with less than three months' training, officers, N.C.Os and specialists.

The Women's Land Army

In mid-1942 plans were taking shape in the Director of Manpower for an "Australian Women's Land Army" designed to provide an administrative organisation for the supply of female labour to rural industry. The broad plan was for an "army", under the control of the Directorate, based upon voluntary enlistment of women willing to undertake full-time paid rural labour, but excluding members of farmers' families. The various

[6] Director-General of Manpower, Circular Instructions, 29 Jun 1942.

private "armies" (including the Women's Auxiliary National Services in New South Wales which had sought to co-ordinate voluntary organisations) were to be absorbed.[7] By October plans had become definite. The Australian Women's Land Army would welcome British subjects and friendly aliens aged 18 to 50, but women already employed permanently on the land, including farmers' families, were not eligible, since Australian Women's Land Army members must go where directed. Members must be given award conditions by employers, with a maximum working week of forty-eight hours; where no award existed the women must receive at least 30s a week over and above food and accommodation. Members undertook to do whatever work they were allocated, and might be discharged for inefficiency and indiscipline. Fares to the place of employment must be paid by the employer. Permanent members were supplied with distinguishing uniform; those seeking only short-term employment were organised separately in an Auxiliary, with a badge but no uniform.

As the scheme became effective, the Directorate of Manpower found itself involved in a continuing and at times thorny administrative situation. Rules for clothing issue, conditions of accommodation to be provided by farmers, establishment in appropriate cases of camps or hostels for groups of women with attendant need for supervisory staff, provision of medical service—all these and many other issues multiplied. The outcome was a significant but not enormous contribution to rural labour supply. After six months (that is May 1943) there were some 2,000 permanent members and auxiliaries, some of whom would have been available for rural work in any case. But the Australian Women's Land Army was far more effective than the private organisations it displaced; it consisted of women who had volunteered for rural work; were, when necessary, given periods of training; and were available to be moved from one district to another.

Despite all these measures labour was not adequate during 1942 and 1943, and by mid-1943 it was necessary to promote the use of farm machinery with especial regard to its substitution for labour. Growers were frequently not able to pay for such machinery; were reluctant to do so when the demand for many products was unlikely to remain at a high level after the war; and were often aware of their bargaining advantage when the Commonwealth was actively seeking to promote larger output. The solution adopted was the creation, on a district basis, of a pool of Commonwealth-owned machinery available for hire under the supervision of the District War Agricultural Committees. The Cabinet cautiously authorised £100,000 as an initial experiment, most of this being for a programme of navy bean production in New South Wales, Victoria and Queensland. To avoid conflict with other demands, orders for the machines were to be placed through the Machinery Controller of the Department of Munitions.

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[7] For some record of the voluntary organisations of women in the early years of the war, see Hasluck, *The Government and the People 1939-1941*, pp. 401-414, and accompanying illustrations.

EXPORTS A CONTINUING PROBLEM

As before Pearl Harbour so after it rural industries fell into broad groups according to the types of problem they presented to the Government.[8] There were those—such as wool, wheat, barley, apples and pears—where the central problem was that local consumption was below production and normal export outlets were severely curtailed. Wool proved the most intractable, and it was impossible to curtail production; all that could be done was to store ever larger amounts, which required careful and protracted disposal after the war. In the event, the problem of wheat declined to manageable proportions.

In a second group were commodities previously dependent on exports for which local demand expanded sufficiently—canned fruits, wine, rabbit skins. More serious were those, notably dairy products, eggs and meat, and to a lesser extent sugar, where maintenance of even reduced exports to Britain, which was anxious to receive them, conflicted with satisfaction of local demands. These were especially the foodstuffs to which rationing was applied. Sugar was also the leading example of an essential foodstuff where the centre of difficulty was a heavy fall in output, mainly because of shortage of labour and suitable fertiliser and, in smaller degree, of machinery.

Yet other industries clamoured for attention on grounds unconnected with export; local civilian and Service demand far outstripped supplies, and the need was to promote substantial increase in output. Notable examples were potatoes and vegetables generally.[9]

Wool

With the outbreak of war in the Pacific the Central Wool Committee faced almost immediately a major storage problem. While wool export continued, demands on shipping for all purposes were sharply increased and availability reduced. At the same time other demands for storage facilities suddenly expanded—the unscheduled arrival of refugee cargoes, Lend-Lease shipments, a large volume of supplies for United States forces in Australia. Some of these demands were met by taking over stores originally meant for wool; some fifty such stores were involved by 30th June 1942. To offset this, the Central Wool Committee proceeded to build more stores. During the financial year 1941-42 sixty-six stores were built with a capacity of 1,513,000 bales, bringing total storage capacity to 3,805,000 bales. The Central Wool Committee's policy, in short, was that if wool could not be shipped it should be stored, and production maintained. That wool stores allocated to other purposes should be replaced by fresh stores built by the Central Wool Committee was an obvious solution to an immediate problem, but continuance of the practice was to cause

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[8] Butlin, *War Economy 1939-1942*, Chapter 3.

[9] The discussion that follows of certain rural products is, for convenience in exposition, restricted in this chapter to those which had been prominent as export problems in the first two years of war, and in dealing with them the narrative looks ahead to later years; on the other hand, the 1942 story of a number of basic foodstuffs, notably dairy produce, eggs, meat, sugar, vegetables, is deferred for treatment in Chapter 18.

difficulty, and to result in wool-store construction being placed under the control of the Allied Works Council.

In May 1942 the Central Wool Committee faced a new problem. As a result of negotiations with Britain a new contract price, justified by increases in cost, was agreed upon, giving a 15 per cent increase. This the Committee applied by increasing uniformly by 15 per cent the Table of Limits which controlled the prices paid for various grades and classes of wool within the overall average.[1] However, the Prime Minister announced publicly the increase in price on 23rd May, explaining that it would take effect on 1st July. The 1941-42 season had still some week to run, and growers responded by withholding wool from appraisement in the hope of securing the higher prices to apply after 1st July. The Committee solved this problem by declaring that wool of the 1941-42 season would be appraised under the old Table of Limits until the grower showed cause why it should come under the new. In all the Committee had to pass judgment on more than 900 applications.

Presently the Committee had to deal with difficulties arising from the greater pressure on land transport in 1942, and the need to economise in labour in handling wool. Arrangements were made with the Director-General of Land Transport to give priority to wool of types most quickly appraised; woolgrowers were prohibited from changing their agents for the duration of the war; wool was in general to be transported to the nearest appraisement centre; scouring and carbonising of wool was restricted. In August 1942 the meeting of the Production Executive which approved these actions foreshadowed issues which were beginning to become important, by directing the Department of War Organisation of Industry to "take appropriate steps to induce woolgrowers voluntarily to reduce the size of their flocks". The method suggested was supply of sheep to increase the supply of fresh meat for the home market, and for dehydration and canning. There were plain warnings of compulsion if meat supply were inadequate. At this stage attention was concentrated on meat supply, but the Cabinet was touching on a latent issue. Numbers of sheep had increased markedly, as a result of the favourable position of the industry; sheep were being kept for wool for a longer period and there was a transfer from wheatgrowing to woolgrowing. It could be argued that reduction, not increase, in the output of wool was appropriate, and that production of wool merely to be stored, at heavy cost in materials and labour, not only served no war purpose but was against the immediate national interest. For the moment, however, the issue remained latent.

From other directions, too, the operations of the Central Wool Committee were under fire, as being solely directed to the interests of woolgrowers. Appraised prices were calculated to average slightly less than the contract prices, any surplus after meeting all costs being distributed to growers at the end of the season. Wool for local consumption was sold by the Central Wool Committee to manufacturers, at appraised prices for

[1] See Butlin, *War Economy 1939-1942*, p. 61.

the particular types of wool, plus a surcharge ostensibly designed to equalise average local prices and the contract price. In 1939-40 this had been ¼d per lb; in 1940-41 7½ per cent of appraised price and 15 per cent in 1941-42. For 1942-43 the Central Wool Committee fixed the surcharge at 25 per cent, on the grounds that this section of its activities was showing an accumulated deficit of nearly £250,000.

The Prices Commissioner protested to the Government that the increased surcharge, outside his control, would inflate prices, while the Clothing Council urged that the surcharge be restricted to 10 per cent. In submitting the matter to the Production Executive, the Minister for War Organisation of Industry went further, challenging the principle of relating local price of wool—80 per cent of wool sold locally was used in goods purchased by government—to the British contract price. There were, however, complications. The increase in contract price had been based on claims of increased cost, and it would be odd if wool were supplied to local manufacturers at lower than the contract price; the Office of Price Administration in the United States was currently considering lifting the price ceiling there to conform with the increased contract price for wool. The Full Cabinet finally resolved the matter by removing the price of wool from the control of the Central Wool Committee and giving it to the Prices Commissioner, who, however, was directed to fix prices designed to yield on the average the contract price. In November he determined that, retrospectively to 1st July, manufacturers should pay appraised value plus 10 per cent, and in the case of goods exported from Australia, an additional 25 per cent. (The deficiency in Central Wool Committee accounts was eventually met by Treasury subsidy.)

Meanwhile a more direct attack on the policy of the Central Wool Committee and on the position of wool was initiated in October 1942 by the Department of War Organisation of Industry, the substance of which was a claim that production of wool should be reduced by 500,000 bales a year. Wool stored in Australia in June 1942 totalled 1,750,000 bales, and was expected, on favourable assumptions, to increase at the rate of 1,500,000 a year. The United States of America then held 2,700,000 bales. Most of the wool held in Australia was of poorer grades. "If present tendencies are allowed to continue," said the Minister, "not only will our current wartime problems be accentuated but Australia will enter the post-war period with huge stocks of very low-grade wool on hand, many of her flocks and pastures debilitated, and the high quality of her wool depreciated."[2]

The Department, however, was mainly concerned with "current wartime problems". Concentrating on the low-grade wools, taken at 500,000 bales a year, it declared:

> the labour required to shear and bale it is equivalent to 1,000 men working full-time for a year. 8,300 trucks are needed to transport it to appraisement centres, and twenty-two Wool Committee standard wool stores (= 572,000 square feet) are needed to house it.

[2] Production Executive Agendum 109/1942, Supplement 1, 18 Feb 1943.

Aspects of the storage problem were already causing difficulty. Stores were built at the expense of British Wool Control, which had objected to their leasing for other purposes. If stores for these other purposes were now built, wool store building would need to be restricted; in which case where would the increasing surplus of wool be stored? The Department's proposal was that a production goal of 3,000,000 bales be set, and steps taken to reduce flocks accordingly.

There were, however, strong interests in this matter. A conference in January 1943 between official representatives of woolgrowers' organisations was addressed by Professor I. Clunies-Ross,[3] Department of War Organisation of Industry representative, who held very strong views in favour of the reduction of sheep numbers, and was therefore instructed to express no opinions but state the facts of the wool situation. The representative of the Department of Commerce, F. W. Bulcock, however, strongly opposed reduction of sheep numbers and called for a resolution to this effect, which the woolgrowers unanimously supported. Immediately afterwards the Minister for Commerce declared publicly that the Government had rejected "rationalisation" of the wool industry and that Bulcock had been sent to the conference to state Government policy.

The Cabinet had, in fact, made no decisions, but faced with strong divergence in its own ranks and the political problems inherent in wool, authorised the Minister to continue discussions with representatives of the industry, adding a direction "that the need for stabilising sheep numbers at a maximum figure not greater than the present numbers should be borne in mind during the discussion".[4] The Minister's report in June 1943[5] of his progress was a measure of the defeat of the frontal attack. Estimates that sheep numbers would not increase during 1943-44 were accepted, and earlier suggestions of release of labour were replaced by readiness to facilitate increasing labour in the industry. Wool was too strongly entrenched to yield to direct assault.

Nor did less direct methods have much more success. Construction of wool stores was transferred to the Allied Works Council with the intention of subjecting the Central Wool Committee building programme to a system of priorities in which urgent demands for other uses of building materials and labour would be considered. Yet in 1942-43, 67 new wool stores were built and wool in store increased from 1,735,807 bales to 2,999,928; during 1943-44 new stores erected were 69 and wool in store increased to 4,393,022 bales. During the following year another 81 stores were built and wool in store increased to 5,136,006 bales.

Wheat

War in the Pacific left New Zealand as the only secure market available for wheat. Exports for the full season 1941-42 were, inevitably, sharply

[3] Sir Ian Clunies-Ross, CMG. Prof of Veterinary Science, Univ of Sydney, 1940-46; Dir of Scientific Manpower 1942-45; Exec Officer CSIRO 1946-49, Chmn 1949-59. B. Bathurst, NSW, 22 Feb 1899. Died 20 Jun 1959.

[4] Production Executive Minute 223, 2 Mar 1943.

[5] Production Executive Agendum 109/1942, Supplement 2, 14 Jun 1943.

reduced to barely half those of 1940-41, and the major part of these had been disposed of before Japanese entry into the war. The area sown to wheat had fallen by over 600,000 acres, but the total still stood at 12,000,000 and good weather conditions had masked the effect of labour difficulties, shortage of fertiliser and reduction of acreage. Production was more than double that of 1940-41, at 167,000,000 bushels. There could be no certainty that any but negligible exports would be possible when all shipping communications were threatened, and wheat could not be regarded as priority cargo except in modest quantities to nearby markets such as New Zealand.

To these immediate war circumstances were added the long-term implications of negotiations for an International Wheat Agreement. Initiated in 1939, these had lapsed after war began but were resumed in May 1941 on American initiative, with the objective of establishing a "world ever-normal granary", with avoidance of major surpluses and price fluctuations. The two practical issues in the negotiations were the setting of export quotas for the chief suppliers (Canada, Argentine, United States of America and Australia) and price control. Discussions dragged on into 1942, and it was not until the end of April that Australia secured its demand for a quota of 19 per cent, which on a planned world export quota total of 500,000,000 bushels meant 95,000,000 bushels for export, which with estimated domestic consumption provided for a crop of 150,000,000 bushels. In April 1942 such concern about export quotas, which could have practical application only when hostilities ended, appeared academic; nevertheless, the associated discussions of the basis for determining export prices was taken so seriously that they were not concluded when war ended.

During the early months of 1942, local discussion centred on the need to restrict production for more immediate reasons, particularly the problem of storage of the forthcoming 1942-43 harvest. Opinion was divided as to the extent to which labour and fertiliser shortages, combined with the general discouragement to wheat-growing inherent in the whole situation, would achieve adequate reduction, and in the end positive policy was limited to a decision on 9th March to curtail wheat acreage in Western Australia by 30 per cent, paying farmers compensation of 12s an acre (estimated to cost £500,000). Western Australia was chosen because its output was far above demand in that State and in the new conditions it was least favourably located for transport. In the event, acreage for Australia as a whole fell, as had been expected, by almost one-quarter, but while this was accompanied by a very large fall in production in Western Australia, this was partly offset by a sharp rise in South Australia and Queensland, so that the total Australian crop was not much less, at 156,000,000 bushels.

An important factor in this maintenance of output was the effect in good weather conditions of the adoption of a new stabilisation plan, known as the Scully plan (after the Minister for Commerce). The central features of this plan, adopted by the Cabinet on 5th August 1942, were

that any licensed grower should receive a guaranteed price of 4s a bushel for all bagged wheat at sidings up to a total of 3,000 bushels for each grower; all additional wheat would be acquired by the Commonwealth and paid for at market price less handling costs, but since long delays were expected in selling this wheat, an advance of 2s a bushel would be paid on delivery. Since it was estimated that the 3,000 bushel quota would account for 70 per cent of the total crop, this plan contained a strong incentive to small growers, who were the great majority, to maintain or even increase output. In October 1942 the Australian Wheat Board was reconstructed to increase grower representation, and in March 1943 it was provided that growers' representatives should be elected, not appointed by the Government.

Partly to reduce the growing surplus of wheat, partly for the more positive purpose of increasing production of pig meat and eggs, wheat for stock feed was, from 20th April 1942, sold at 6d a bushel less than the normal market price. So successful was this in promoting increased use of wheat for animal feeding that two years later, in a drought season, wheat for animal food had to be rationed, but the principle of subsidising wheat for stock food was maintained until the end of the war. Nevertheless, with output high and exports for 1942-43 even lower than the low level of 1941-42, stocks accumulated despite the subsidy for stock food and the enlarged demand from the American forces in or based upon Australia. Additional storage had to be built, especially in Western Australia, where the makeshift storage in Fremantle was a source of repeated complaint from local residents who had to suffer the noise, dust and mice which accompanied it.

However, the Government could contemplate with some confidence the renewal, in May 1943, of the Scully stabilisation plan. The signs were that output would be lower in 1943-44 and that external outlets, whether by normal export or supplies to relieve distress in recaptured territories, would be enlarged; there were even some political leaders in New South Wales who suggested that it would be necessary to promote expansion of wheat production.

Barley

Before the end of 1941 it was evident that the barley crop would be very large. A greater acreage had been sown to barley, partly because of the good returns from the previous harvest, partly because the wheat stabilisation plan encouraged transfer from wheat; the weather was favourable. The crop was estimated at 18,000,000 bushels, of which, allowing for retention of some on farms, 14,000,000 were expected to be delivered to agents of the Barley Board, against estimated local demand of 6,000,000 bushels. Export prospects were poor and wheat was being diverted to stock feed, displacing barley. It seemed early in 1942 that there would be a surplus of about 7,000,000 bushels, with no prospective market. The first advances through the Board were limited to 9d to 2s per

bushel, and the Commonwealth Bank was unwilling to make further advances which, it seemed, would in fact be subsidies.

This surplus hung over the market for nearly two years. Farmers were warned of the poor prospects and advised to reduce production. Other factors pointed in the same direction. Labour was becoming scarce; the Government's plan was to reduce beer production by one-third, which implied a reduced demand from maltsters; some wheat was diverted to poultry and pig-feeding, forcing in June 1942 a fall in barley prices. Farmers responded by a sharp cut in acreage, from 784,000 acres in 1941-42 to 451,000 in 1942-43, and the resulting crop was reduced to less than half, the amount delivered to Board agents being cut to less than one-third of the amount for the previous year. Growers in States other than Victoria and South Australia were excluded from pooling arrangements, leaving them free to market their small crops locally. The Government rejected moves to introduce stabilisation on the wheat model and held to low levels advances to growers against sales proceeds.

By early 1943, however, it was apparent that stocks would be cleared because of the low harvest, and there was concern that the 1943 crop would be inadequate. Stabilisation was again rejected and, after some hesitation, the Government abandoned plans to have barley grown on contract, leaving brewers and others to make their own arrangements. A production goal of 8,000,000 bushels for 1943-44 was approved.

Production in fact proved to be only a little over 7,500,000 bushels, and even before this was known feed grains of all kinds, including barley, were becoming scarce. In February 1944 among measures taken to reverse the position were: long notice of advances by the Commonwealth Bank and, as a guide to allocation of labour and fertiliser, the setting of a production goal of 11,380,000 bushels for 1944-45. Farmers responded by increasing sowings by half, but severe drought meant an extremely low crop. Barley prices were raised, use of barley for stock-feed was virtually abandoned, and imports were sought, although only half the quantity sought was obtained. Not until the 1945-46 season was the crop adequate, at 11,000,000 bushels, so that the industry ended the war with no accumulated stocks to depress markets.

Apples and Pears

A number of changes in arrangements for marketing of apples and pears coincided with the outbreak of war in the Pacific. In accordance with the report of a Joint Parliamentary Committee, the Apple and Pear Marketing Board was reduced from nine to three, the displaced members (who, as chairmen of each of the State committees, were virtually spokesmen for separate and often conflicting interests) becoming an Advisory Council. This change took effect in January 1942. The second change was a decision that the government's liability for losses under the acquisition scheme should be limited to £1,000,000 for the season. On this basis the 1941-42 crop was acquired from January 1942. The arrangements met a

hostile reception from growers, and the Government was forced to increase the amount of pre-sale advances, although as the crop proved to be light, the total liability was not much over the limit set.

There were, however, divided interests within the industry, and apparent paradox in the face that fruit was sold in the eastern mainland at prices which consumers on the one hand regarded as excessive and growers (at least in Tasmania) regarded as out of line with their small returns, which were fixed by the Board. Retail and wholesale prices were uncontrolled. Agreement was reached between the Board and the Prices Commissioner that the Board should fix these prices, on the Commissioner's recommendation, from June 1942. These arrangements, however, did not touch the essential reason for growers' grievances. Fruit was surplus in the chief producing States, Tasmania and Western Australia, where population was thinnest and there was little effect from the increased demand by American troops. Transport difficulties, which had from the outset limited movement of fruit from these States to the mainland, had now become acute; in New South Wales in particular, retail prices were very high.

Thus behind the growers' traditional complaint of excessive wholesale and retail margins lay a conflict of interest between the two main surplus States and the others. In the three eastern States, growers already, by evasion of acquisition, could to some extent take advantage of prices higher than returns under acquisition, and increasingly wished to be free to secure full advantage. In Tasmania and Western Australia, growers showed no disposition to recognise that even if their acquisition returns compared unfavourably with mainland prices, these were better than a free market.

Matters came to a head as a result of the fortuitous timing of a judicial decision. As far back as November 1940 A. U. Tonking,[6] Colonial Secretary for New South Wales and a fruit-grower, had initiated moves which culminated in action in the High Court, claiming that he was entitled to receive the full market value of property taken over by the Commonwealth. The defence was badly argued, making little of the essential point that the current market value would have been far less but for Commonwealth marketing arangements, and that in fact that price was inflated by subsidy to the industry. Tonking won, and judgment was given in May 1942.

A great number of similar claims followed, and after some delay regulations were issued in January 1943 to prescribe methods of making claims and assessing compensation;[7] meanwhile payments on the 1942 crop were suspended. More important was the effect of the Tonking decision in leading the Commonwealth to a drastic modification of the whole scheme. It was at first proposed that compulsory acquisition should continue in Tasmania, Western Australia and South Australia, and in other States growers should have the option of requesting acquisition or market-

[6] Hon A. U. Tonking. MLA, NSW, 1932-41; Colonial Secty 1939-41.
[7] Statutory Rules 1943, No. 14, 14 Jan.

ing their own fruit. However, the mainland crop was light and South Australia being well placed to supply to the east, growers there opposed acquisition. Accordingly the Cabinet directed that from 1st January 1943 the acquisition scheme should be restricted to Tasmania and Western Australia.

It was characteristic of the difficulty of satisfying the industry that growers more than once during 1943 complained of being given what they had demanded. Particularly in Victoria growers sought to have acquisition extended to their State, but government opinion was hardening against an industry for which it had done so much and which, apparently, was never satisfied. Acquisition was continued in two States only.

Thereafter the scheme remained substantially unchanged, despite a steady fire of complaint and criticism, much of which, in essence, was mainland growers resenting sale of Tasmanian fruit by the Board in competition with their own. The great expansion of the Australian Army and the need to supply American troops brought an increase in outlets for processed fruit—apple butter for Americans, dried apples, apple juice—easing the problem of Tasmanian surpluses.

Canned and Dried Fruits

Late in 1941 prospects for the canned fruit industry were difficult. There was a heavy carry-over (360,000 cases) of unsold fruit and the British Ministry of Food was unwilling to take more canned fruit. Instead it sought large quantities of pulp, which appeared to offer a solution. There were, however, difficulties. Far more peaches were available than apricots, which the United Kingdom preferred. Fruit for pulping had hitherto been of lower grade, at lower prices, whereas the request implied that fruit suitable for canning should be pulped. There ensued stiff bargaining about prices, the proportion of peach to apricot pulp, allowance for damage (to which the rectangular cans used by Australian pulpers were especially subject) and terms of payment. Agreement was finally negotiated by the Australian High Commissioner who more than once made clear to the Department of Commerce that he felt the instructions he received were unreasonable.

Meanwhile prospects for canned fruits had brightened considerably. Demands for Australian and United States Services rose substantially, and the Ministry of Food sought large amounts for India, the Middle East and N.A.A.F.I. canteens. Accordingly in May all stocks of canned fruits were "frozen" and an allocation of the 2,400,000 cases available was made, the net effect of which was to reduce supply to the Australian civilian market substantially—by about a quarter—compared with 1941. The actual distribution proved to be:

	Cases
Australian and United States Services	690,000
Canteens Board	440,000
Emergency Depots	110,000
Exports, including Ministry of Food	213,000
Civilians	943,000

Early it was clear that for 1943 canned fruit production would be inadequate. The pack was estimated at 2,250,000 cases (it proved to be 2,082,000); Service demands were over 2,000,000, and "normal" civilian demand would be 1,000,000. Accordingly the Food Council in February directed allocations of 1,185,000 to the Services; civilians were restricted to 382,000 cases, or about forty per cent of usual consumption; Service canteens supplies were reduced by one-third and it was agreed that canteens should restrict sales to areas north of Rockhampton (Queensland). Orders from India were not accepted.

In 1944 demands were again well above supplies, but by this time the industry was becoming concerned at the inroads United States producers were making in their old United Kingdom markets. Accordingly 200,000 cases were offered to and accepted by the Ministry of Food at the cost of severely curtailing Australian civilian consumption and further restricting Service canteen sales. Civilian supplies consisted of two releases, each of fifteen per cent of "normal", in June and September. Experience in 1945 was parallel, civilian consumption being held down to 620,000 cases.

Dried fruits continued to enjoy a preferred position because of sustained demand from the United Kingdom and Canada. The 1941-42 crop was 92,562 tons, of which the United Kingdom took 44,000 tons. The succeeding harvest was also good, and the new arrangements by which allocations required the approval of the Combined Food Board in Washington made little difference; prices were slightly higher and the chief problems arose from delay in shipment, which was eased when the British Ministry of War Transport gave priority to dried fruit over cereals from Australia. For the remaining two war harvests the story was much the same, with increased output in 1944 when the crop was 105,000 tons, the highest ever to that time, although the 1945 crop was very low, and United Kingdom allocations fell to 21,000 tons.

Wine

Initially it seemed that the severe shipping crisis created by the Pacific war would intensify the problems of the wine industry. However, although its exports were further curtailed, other circumstances combined to put the industry into a relatively favourable position. As has been noted, it was given favourable treatment in the Control of Liquor Order of March 1942, in that, while monthly sales were restricted to 1941 levels, the industry was permitted to continue advertising. Later, when concern at the alleged increase in drunkenness led to proposals to reduce sales of alcoholic beverages, wine was, after debate, excluded from the restriction. The proposal was to reduce wine sales by one-third and the exclusion, in November 1942, was justified on the grounds that if the reduction were made the Government would be forced to give financial aid to growers.

Further aid to the industry came from several sources. Partly because of shortage of beer, partly as a result of large numbers of Allied troops, local consumption of wine rose markedly, as shown by figures of withdrawals from bond:

	Gallons
1930-40 . . .	4,000,000
1940-41 . . .	4,700,000
1941-42 . . .	5,300,000
1942-43 . . .	7,800,000

Another gain was from the policy adopted by British merchants of purchasing wine and brandy for storage in Australia and delivery when practicable. By August 1942 such wine, stored mainly in South Australia, already totalled 2,450,000 gallons, together with 304,000 gallons of brandy. These sales, good local demand, and an eye to post-war sales of well-matured wines and brandy, induced winemakers to buy the whole available crop from 1942 onwards. Indeed, by late 1943 it was necessary to restrict winemakers' purchases of grapes suitable for the production of dried fruit in order to meet Service requirements and British orders.

Labour was in practice the industry's most serious problem, particularly in South Australia where nearby munition works offered attractive employment. In June 1942 assurances were given of the supply of sufficient labour to maintain the vineyards, which would suffer major damage from neglect, and could not be diverted to other crops. In practice the area devoted to grape-growing was maintained and fluctuations in production were mainly the result of weather conditions. That for the years 1942-43 and 1943-44, at almost 20,000,000 gallons each year, was above output for any other war years, and virtually the same as the best pre-war years.

Rabbit Skins

With the greatly increased Service demands at the beginning of 1942 it was impossible for mills to meet all demands for fur-felt hats. Despite favourable weather promoting a rapid increase in numbers of rabbits, manpower restrictions limited trapping, while the United States price ceiling of April led to a fall in Australian rabbit skin prices. Production of fur-felt hats for civilians was suspended from April 1942 until the end of the year so that mills could concentrate on Service requirements. Control of exports was also tightened by banning export "on consignment", which had provided a way of evading exchange control. In July, after much argument, the export levy was raised from 9d to 1s 6d.

This, however, discouraged trapping, and the levy was first halved in October and then in December suspended until April 1943. Skins, however, continued in short supply, offset to some extent by a reduction in the Army demands in September 1942. A further reduction occurred in February 1943, enabling the Rationing Commission to plan for increased civilian supplies of both men's and women's hats, and for the rebuilding of traders' stocks.

Because of the suspension of the levy, the Commonwealth Bank was unwilling to advance funds to the Rabbit Skins Board; the levy was accordingly reimposed (at 9d in May and 1s 6d a month later) and the Bank again made advances available. Exports to the United States of

America rose sharply and prices were high, so that the Board accumulated a surplus. By September 1944 this had reached £400,000 and the levy was again suspended, not, as it turned out, to be reimposed again. Throughout 1944 and 1945 Service demands were steadily reduced, and progressive expansion of production for the civilian market was possible. In all, during the war period some 4,000,000 fur-felt Service hats and 6,000,000 civilian hats had been produced.

Hides and Leather

During 1941 the foundations for a continuing shortage of leather suitable for heavy footwear were laid. Large orders for military boots were accepted from the Eastern Group Supply Council, and to superintend the production of these and other Service requirements a Controller of Leather was appointed in July 1941. (The Hide and Leather Industries Board continued to control the acquisition, appraisement and allocation of hides.)

As a first step towards increasing supplies of leather, hides were obtained from New Zealand, but the quantity available was small: 7,000 were obtained by November 1941 and the estimate for the whole of 1942 was only 50,000. Accordingly attention was turned to South America, despite the high prices there created by United Kingdom and American demand. It appeared that South American supply was only half the total demand of all the Allies, and a united front was necessary to prevent a great increase in price. Australia secured the right to acquire small quantities, but the main relief came from reduction in Eastern Group Supply Council orders. These had been 6,500,000 pairs of boots for April-December 1942, but were reduced to 1,900,000 pairs. (In the event shipping difficulties meant that a large part of these orders were never delivered but became available later in 1942 to ease an acute shortage of heavy work boots.) The overseas hides position worsened, and it was agreed in May with the United Kingdom that Australia would concentrate on meeting its own and American Service demands, allocating to India only any surplus. A final shipment of 16,000 South American hides in September caused a great deal of trouble, and eventual loss, to the Commonwealth because tanners successfully claimed that the hides were of inferior quality.

Meanwhile other efforts were directed to preventing the use of leather for less essential purposes. In October 1941 export of footwear and a range of leather goods was prohibited, while in July 1942 control of leather goods designed for the domestic market was instituted under the supervision of the Department of War Organisation of Industry. Price control of various types of hides was tightened.

Nevertheless, shortage of leather for essential production continued. In South Australia during 1942-43 shortages were connected with the relatively severe appraisement procedures and the consequential low prices. Western Australia suffered because it needed to obtain hides from Queensland, and transport was inadequate, while Queensland experienced

shortages because the concentration of troops in that State led to a high consumption of leather for repairs. These difficulties were eased by the introduction of civilian clothing rationing in June 1942 and a reduction after the end of 1942 in the production of military boots.

In the crisis year of 1942 the main wartime developments in rural industry had been first the great shift in focus of policy: from coping with the loss of export markets with rural industry seen otherwise as largely not needing special attention, to emphasis on the need to produce more, especially of basic foods; secondly the great expansion of direct Commonwealth activity, especially by the Department of Commerce, in agricultural matters previously the preserve of the States, a change which was to prove permanent. Other changes were to prove permanent too—a moderate but significant diversification of agriculture; an acceleration of mechanisation which was to continue to the point where one could speak of the disappearance of the work horse in Australia; a lesser dependence for many products on export markets. Only wool continued largely untouched, maintaining and increasing production with little regard to contemporary needs or the possibility of export in wartime. In 1939-41 the key word had been "exports" and the guiding objective the maintenance of oversea sales; from 1942 onwards the key word was "food" and export overseas even of the most essential rural products took third place after satisfying first the needs of the Services in the South-West Pacific Area and then those of Australian civilians.

The shift in policy had still, however, to be translated into action. Production of most essential foodstuffs was reasonably maintained in 1942, but by the early part of 1943 the erosion of rural manpower, the shortages of fertiliser, farm machinery, materials and transport, were beginning to take their toll. Whole milk production was down sharply in the first half of the new year and sugar and meat output were running well below their respective targets. Eggs had become scarce and many tinned foods had disappeared from grocers' shelves. In May the National Health and Medical Research Council reported its concern about the fall in civilian consumption of protein foods and urged the adoption of a balanced dietary policy along lines followed by the British Ministry of Food.[8] There was as yet no serious threat to health standards, but Cabinet was sufficiently concerned to request a regular monitoring of consumption patterns by the Council in association with the Civilian Requirements Board.

Also at the beginning of 1943 the pressure of competing demands became more intense. The United Kingdom, now in a position to make more shipping space available, resisted cuts in export allocations. With the growth in the number of Americans in the South-West Pacific Area, the demands of the United States forces appeared to be unlimited; the Americans assumed that Australia and New Zealand should and could provide the bulk of their requirements in the area. The needs of the Australian

[8] Full Cabinet Agendum 487; meeting 18 May 1943.

Services, too, reached a peak around mid-1943, while for political and other reasons consumption by civilians could not be allowed to fall much further.

Any serious attempt to grapple with the complex problems of production and allocation were delayed pending the administrative reorganisation of food control; acceptance by the Government of the principle of manpower rationing; and the need for reallocation of manpower resources. But in July 1943 War Cabinet acted firmly to accord food production the highest priority. The vital decisions were that production of essential foods would be regarded as a war activity; that manufacture of agricultural machinery be entrusted to the Department of Munitions and accorded the highest priority; and that manpower should, in principle, be released from the Services to augment the supply of rural labour.[9] The decision to restore portion of the rural labour force was not confirmed until October,[1] but in a real sense July 1943 marks the turning point in the conduct of wartime primary production policy. Henceforth the production of food was regarded as an integral part of war policy and not merely as an adjunct to it. A difficult period still lay ahead, and there were avoidable as well as unavoidable delays in making the decision effective. But the key decision had been taken.

[9] War Cabinet Minute 2972, 13 Jul 1943.
[1] War Cabinet Minute 3065, 1 Oct 1943.

CHAPTER 9

CRISIS IN SHIPPING

SHIPPING ORGANISATION

THE handling of the multitude of complex shipping problems which attended the outbreak of war in the Pacific can only be understood in terms of the diverse administrative bodies attached to various departments which already existed in December 1941, those which were established in early 1942, and the co-ordination of all of them in the shipping part of the Department of Supply and Shipping in October 1942.

Until late in 1941 shipping matters had been seen as primarily the responsibility of the Department of Commerce, consistent with the view during the first two years of war that for Australia wartime shipping was primarily a matter of securing tonnage for exports. There was little disruption of coastal shipping in the first year, and most of the overseas shipping of concern to Australia was under the control of the British Ministry of Shipping (later War Transport). It was not therefore until January 1941 that a planned Shipping Control Board did actually operate. Initially its operations were somewhat leisurely; not until July 1941 did it create a Shipping Management Committee including representatives of each of the companies whose ships it had requisitioned. A Central Traffic Committee with a Traffic Committee in each capital city port, with a special committee for Tasmania, followed immediately.[1]

The Board was responsible for requisitioning ships (other than those taken over by the Navy) and it operated by making the owning company its agent for the management of the vessel, on a time charter. Requisitioning began in July 1941, when 59 vessels came under the Board's control, a number which had increased to 77 by December. (The Broken Hill Proprietary Co. Limited fleet of bulk ore carriers was not requisitioned but operated under the direction of the Board.) The Board delegated details of management to its Management and Traffic Control Committees.

The Commonwealth Government Ship Chartering Committee was appointed by the War Cabinet in July 1941, originally with the main purpose of chartering overseas ships for Australian exports, but the entry of Japan into the war gave major importance to the use of chartered ships in coastal traffic. The Committee's original members were the Secretary of the Department of Commerce, the general manager of the Australian Wheat Board, and the general manager of the British Phosphate Commission, reflecting the original motives behind its creation. In addition to chartered ships it took over, as they were completed, the "River" class vessels being built in Australia.

The deteriorating industrial relations in the manning of ships in the latter part of 1941 culminated in a special conference immediately before

[1] For earlier developments in shipping generally, see Butlin, *War Economy 1939-1942*.

Christmas at which the interests concerned were induced to accept the establishment of a Maritime Industry Commission, a proposal independently made earlier by both Sir Owen Dixon and H. V. Evatt. As constituted by special regulations in January, the Commission comprised equal representatives of employers and trade unions under the chairmanship of a member or an Arbitration Court judge, and was charged with securing the efficient manning of ships, controlling the working conditions of seamen, implementing a standard 44-hour week (the chief demand of union representatives at the conference), settling industrial disputes in the industry, determining disciplinary measures, and administering the payment to seamen of war risk bonus.[2]

A few weeks later a parallel body, the Stevedoring Industry Commission was established to deal with labour on the wharves, similarly following conferences to review the unsatisfactory working in wartime conditions of free selection by both employers and workers. (The Manpower Directorate was concerned too that a tenuous association with wharf work was used as a means of escaping direction.) As constituted in April 1942 the Commission consisted of an Arbitration Court judge and seven members of whom three represented overseas and Australian shipowners and employers of stevedoring labour, three the unions concerned, and the seventh was a non-voting government member. It was charged with co-ordinating the use of stevedoring labour and generally controlling waterside work, for which purposes it was empowered to control the engagement of waterside workers, to register and direct waterside workers (including directing them to particular jobs) and to prescribe working conditions.[3]

An early decision was to establish Waterside Employment Committees at ports to handle the employment of labour on the spot within the general framework laid down by the Commission, and most of these were operative by June 1942.

As a result of initiatives taken in October 1941, a Salvage Board was constituted in March 1942, to organise the salvage of ships damaged or sunk by enemy action or otherwise. It operated with a branch in each State, except Tasmania.[4]

The establishment of a Central Cargo Control Committee in April 1942 was prompted by great congestion on wharves in the early part of the year. Partly this was the result of the diversion of "refugee" ships to Australia following the fall of Malaya, Singapore and the Netherlands East Indies, and the need to dispose of the miscellaneous cargoes they contained. Partly it was the result of the increased Lend-Lease and

[2] Maritime Industry Regulations, 2 Jan 1942. The original members were Mr Justice A. J. de Baun, J. F. Murphy, Secretary of the Department of Commerce, representatives of independent steamship owners, of the Steamship Owners' Association, Merchant Service Guild, Seamen's Union, Institute of Marine Engineers and of the Maritime Transport Council, until Oct 1942 attached administratively to the Department of Commerce.

[3] Stevedoring Industry Regulations, 2 Apr 1942. The first chairman was Mr Justice H. B. Piper. Administratively, the Commission was attached to the Department of Labour and National Service. The current Arbitration Court award continued operative until varied by the Stevedoring Industry Commission.

[4] Salvage Board Regulations, 14 Mar 1942.

American Service cargoes. It operated through State Cargo Control Committees, with port controllers at Townsville and Cairns because of their special problems as advanced supply bases.

The formal organisation arrangements dealing with shipping as they existed prior to the establishment of the Department of Supply and Shipping in October 1942 are shown in the accompanying chart.

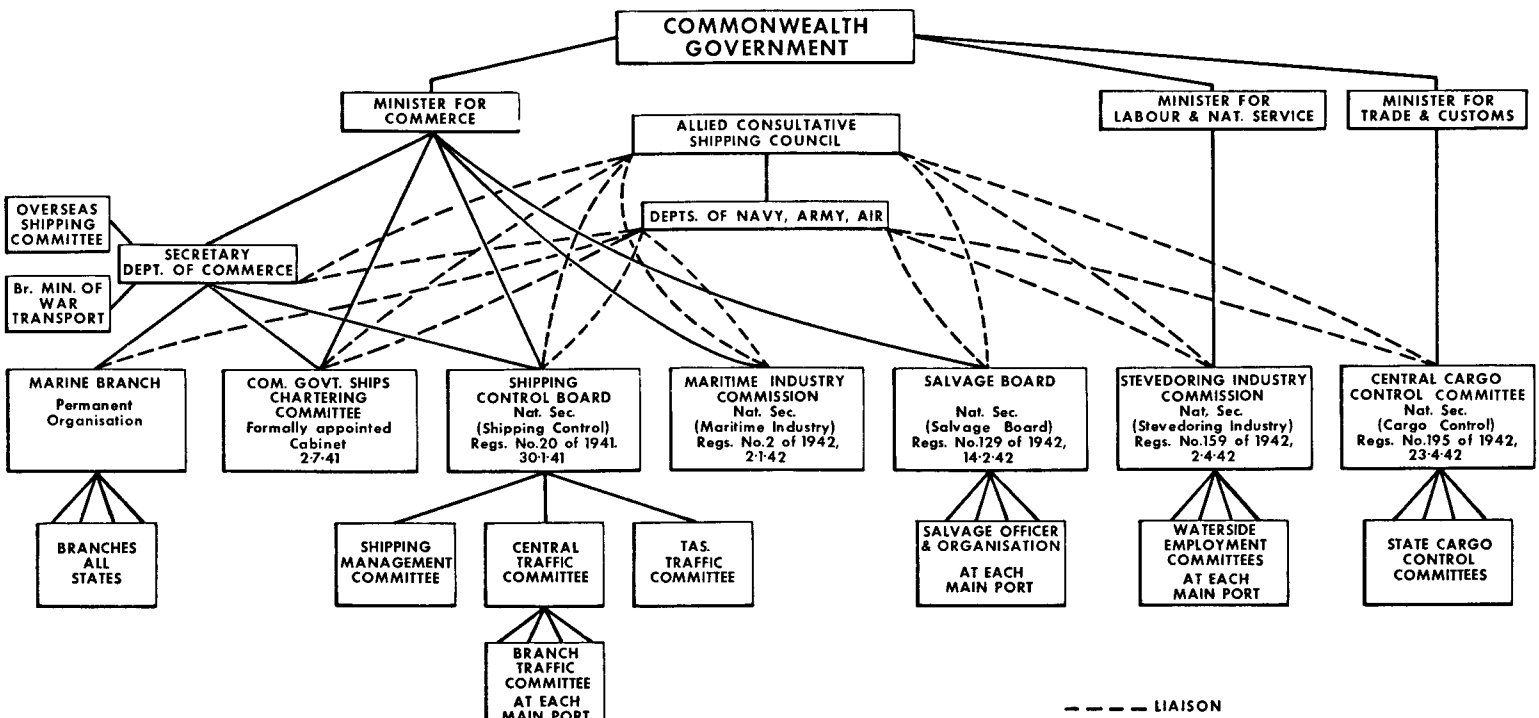
The Allied Consultative Shipping Council had its origin in the confused shipping position of January-February 1942. The greatly increased demands following Japanese entry into the war, and especially those associated with the movement of American forces into Australia, had to be faced in the confusion and disorganisation of defeat and retreat, with refugee ships hastily seeking safety in Australian waters, including American ships diverted en route to the Philippines. *Ad hoc* emergency decisions had temporarily to take priority. But it was evident that some systematic arrangement was necessary to cope with a situation in which American, British, Australian and Dutch ships were all involved and the common purpose must be pursued with regard to the interests and rights of control over their own ships by these governments.

Rapid inter-governmental exchanges during the first fortnight of February bore fruit in the War Cabinet decision on 9th March to establish the Allied Consultative Shipping Council with the general function of promoting co-ordinated use of shipping in the Australian area irrespective of national ownership.[5] There were a number of Dutch ships in the area, and when later that month the Netherlands had organised a Mission in Australia, it too was added. Three months later, in recognition of the diversion of Norwegian ships to Australia, there was a representative of the Norwegian Trade and Shipping Mission, and later again, in August, the chairman of the Maritime Industry Commission and an Army representative were included.

The Council had itself no powers of action—the "Consultative" of its title emphasised this—and indeed it would have been impracticable to devise a formula to give control over the ships of five nations. But in operation, during most of 1942, the Council's conclusions were of great importance. Meetings, usually once every three weeks, were means of canvassing problems and solutions, exchanging information and seeking agreement on action, which could then be formally implemented by the organisation directly responsible. So long as in Australia a series of separate bodies, responsible to different departments, dealt with aspects of the total shipping problem, the Council was the primary route through which those bodies, and those for whom national representatives were spokesmen, were brought to co-ordinate their actions. Once the Department of Supply and Shipping was established the Council ceased to have so much importance; it was also true that policies and methods of action

[5] Its initial membership comprised Sir Owen Dixon for the Shipping Control Board (chairman), and representatives of the British Ministry of War Transport (Sir Thomas Gordon), the United States War Shipping Administration, the Department of Commerce, the Australian Navy, the British Phosphate Commission (Sir Arthur Gaye). Gaye, who was also a member of the Ship Chartering Committee, was executive member.

CHART No.2 - **COMMONWEALTH SHIPPING ADMINISTRATION** - ORGANISATION AS AT 30·9·42



had been worked out and called for less consultation, while, overall, the shipping position had not the desperation of 1942.

Among the Council's earliest conclusions was one that twenty-one Dutch vessels in Australia should pass under the exclusive control of the American Army; and another that arrangements be provided for regular exchange of information about shipping movements, shortages, arrangements for port accommodation, repairs, cargo handling and coastal convoys. As an example of the varied topics covered, a meeting on 7th October discussed ways of speeding up repairs; shortages of lighters; replacement of a chartered ship sunk; refugee ships idle in Western Australian ports; convoy problems; coal stocks; cargo space for raw sugar; the Department of War Organisation of Industry's plans for eliminating the very small amount of non-essential cargo still being carried; and crew demands for leave.

After the Department of Supply and Shipping became fully operative the appearance of an item on the agenda normally meant that it was particularly serious or difficult at that time. Council meetings were, effectively, ways of making the various interests represented all aware of an unsolved problem, or often a means of bringing pressure to bear on one of the Council's constituents, for example on the Americans to make more ships available for the coast, or to find solutions for the friction that arose from the use of Chinese and Lascars on coastal ships.

REQUISITIONING

Ships under the immediate direction of the Shipping Control Board were obtained either by requisitioning ships on Australian register, or by chartering. In the breathing space of 1941 the Board worked out principles for placing all ships requisitioned on a standard time charter, under which the operating company would run a requisitioned vessel as agent for the Board which would meet all costs and be credited with all earnings. The shipowner received 6 per cent of all freight as a management fee; 5 per cent depreciation per annum and 4 per cent interest on capital (both calculated on the value of the ship); and allowances for superintendence, hire of gear, and for claims for pillage and damage.[6]

Between July and December 1941 some 77 interstate steamers had been requisitioned, and during the first six months of 1942 a further 24 interstate ships, one intrastate steamer, and 37 small craft, trawlers, launches and ketches were added. In the second half of 1942 a further 3 interstate and one intrastate steamer were added together with 47 miscellaneous craft. By that time most of Australia's coastal vessels not taken over by the Services (including the Americans) had passed under the control of the Board, and through it of its Management Committee. The total number of vessels requisitioned by the Board was:

[6] The superintendence fee was initially 9d. per ton for loading, a similar amount for unloading general cargo, increased later to 1s. (payable retrospectively from 1 Jan 1942) and to 1s. 3d. (payable from 1 Oct 1942). Hire of gear was paid for at 7d. per ton for general cargo. Originally claims for pillage and damage were limited to 10d. per ton; but from 1 Jan 1943 the Board met actual amounts of claims.

	Interstate Steamers	Intrastate Steamers	Trawlers, Launches, Ketches, Small Craft
To end of 1941	77	—	—
1942	27	2	84
1943	8	5	4
1944	1	11	—
1945	3	1	—
	116	19	88

Formally the ships of The Broken Hill Pty Co. Ltd were not requisitioned but they were used, nevertheless, in accordance with decisions of the Board.

CHARTERING

The second source of ships for the Board was the chartering of overseas vessels including as a special case a number of vessels which took refuge in Australia when Japan attacked. As was noted earlier, originally chartering had been primarily a means of finding ships for Australian exports and the twenty-four ships under charter in December 1941 were the result of this policy. Subsequent charters were as much for use in local waters, but ships were much harder to obtain. There were fewer left available as the British Ministry of War Transport and the United States Shipping Administration were effectively in control of that supply, while other owners (for example Norwegian and Greek) were increasingly reluctant to charter for Australian service which could include carriage of coal or iron ore in vessels not designed for that purpose. Of the 66 vessels (excluding refugee ships) at one time or another on charter to the Board, 25 were obtained from the Ministry of War Transport, 10 from Norwegian owners, 8 Greek, 6 Panamanian registry, and 2 Yugoslav owners; 2 were taken over from Westralian Farmers Ltd., 2 from the Commonwealth, while the "River" class ships built in Australia were chartered to the Board as they were completed.

In summary chartering of such vessels was:

	On Charter at 1 January	New Charters*	Ships Lost	Charters Terminated
1942	24	7	7	2
1943	22	10 (2)	1	—
1944	31	8 (4)	1	5
1945	33	15 (5)	1	10
1946	37	—	1	24

* "River" class ships included in the total, in brackets. At the end of 1946 therefore the Ship Chartering Committee had, apart from one British War Transport ship chartered until March 1947, reduced its fleet to 11 "River" class ships owned by the Commonwealth.

The position in the first half of 1942 was worse than these annual figures suggest. The new charters were three, but as one of these came from the Commonwealth Government and two were transfers from the British Ministry of War Transport they represented more a change of

control than a net addition to shipping resources. Against this, five chartered ships were lost. The second six months of 1942 were better. Only two chartered ships were lost, and there were four new charters. Nevertheless over the year as a whole chartered ships were reduced by a net two.

A second special source of chartered vessels was the refugee ships which entered Australian ports in 1942. A number of these were already on charter to the British Ministry of War Transport and of the rest those not taken over by the Americans were chartered by the Ministry, which then made most available on sub-charter to the Shipping Control Board. As has been noted, the Americans secured all the Dutch refugee ships and as well six vessels transferred at the end of 1942 from India originally destined for the Shipping Control Board. The Board's 1942 acquisitions were 7 ships of Burns Philp & Co. Ltd, 6 Norwegian ships and 6 miscellaneous small ships, two of which were transferred to the Americans.

The United States Army demands on Australian shipping owners were a sore point. The Americans had secured all 21 Dutch refugee vessels for their exclusive use on the Australian coast, together with two other refugee ships surrendered by the Shipping Control Board. In response to requisitions Australia had handed over another 23 ocean-going vessels and requisitions of a further 28 small craft were agreed to. In June 1942 the United States requested a further 42 specified craft ranging from 24 to 1,500 tons which led the Board to strong high-level protest.

The Board summarised the position of the Australian ocean-going coastal fleet at the end of June:

Sea-going ships in the coastal trade at outbreak of war		170
New construction and other additions (for example, refugee ships)		70
		240
Losses by enemy action	11	
Australian Navy requisitions	61	
United States requisitions	23	
		95
Remaining		145

Note: These figures omitted coal and iron ore carriers and 28 small vessels requisitioned by the United States Army.

The Board insisted that it could not agree to the handing over of another 42 small craft for which no clear case had been made by the Americans. The Board wanted Curtin to take the matter up with MacArthur, but instead it was decided to counter-attack by presenting a case to the British and American shipping authorities in Washington for the allocation of more ships not merely to Australia but to the South-West Pacific Area generally, with a proposal that the 21 Dutch refugee ships should be included in a pool, not reserved for sole American use;

and withdrawal of the request for 42 ships was sought.[7] But the Americans pressed their claims through MacArthur and ultimately secured the small vessels they sought, at the end of the year, overbearing resistance with arguments of military necessity. By October the American demand had become 15 trawlers and 10 small cargo vessels needed by the end of the month, and a further 15 small cargo vessels by the end of November. MacArthur made the request direct to Curtin.[8] Although the demand meant drastic reduction of some services—only four Australian trawlers would remain outside Service control, for example—Curtin's acquiescence meant that the only issues remaining were the choice of particular vessels and the basis on which they should be transferred. The Americans wanted complete control; the Shipping Control Board wanted at least reversionary rights by having the ships made available on charter. The solution adopted, which again gave the Americans what they wanted, was that the Navy should requisition the vessels.[9]

Enemy action in Australian and New Guinea waters from the beginning of 1942 was a further serious restriction on shipping both for coastal and overseas carriage. Up to the end of 1941 only 9 vessels were casualties. But in the first six months of 1943 13 merchant ships were sunk by torpedoes, bombs or shells and a further 7 badly damaged, while there were other losses not so directly related to enemy action.[1] In the second six months there were 41 casualties of which 7 ships were sunk by direct enemy action; there was a sharp rise in the number of strandings and collisions, so that some 31 vessels in all became total losses. For the first half of 1943 26 ships were bombed or torpedoed, 16 of these being sunk. Thereafter losses by direct enemy action declined but miscellaneous casualties, especially strandings, continued high until 1945, and despite the activities of the Salvage Board the majority of casualties were total losses.[2]

A supplement to coastal shipping was the use of overseas vessels for carriage between Australian ports. The Australian chartering programme had been originally aimed at, especially, finding ships for exports. But in the circumstances of 1942 it was logical to use some of these, for part of the time, in coastal traffic, and when such ships travelled between Australian ports as part of an overseas voyage to use empty space for shipment between those ports. During 1942, of the 3,800,000 total tonnage carried by chartered ships, nearly 2,000,000 was coastal cargo. The cargo from Australia to overseas ports was varied: cereals, sugar, copra; and from overseas ports phosphates, sulphur, chrome ore, salt, bitumen, newsprint; as well as general cargo in both directions. ("General" cargo accounted

[7] Telegram to Australian Minister in Washington, 11 Jul 1942.

[8] Letter of 18 Oct 1942.

[9] Protests by W. J. McKell, Premier of N.S.W., against the choice of small vessels serving the south coast of that State were successful. Letter to Curtin 4 Nov and reply 17 Nov 1942.

[1] These figures and those that follow exclude small craft, but do not distinguish Australian from, for example, American vessels.

[2] In the second half of 1943, 7 merchant ships were sunk by bombs or torpedoes and 2 were bombed but remained afloat, but there were 26 ships aground, and out of a total of 40 casualties half were beyond salvage. All these figures are taken from reports on the activities of the Salvage Board.

for forty per cent of the overseas loadings.) The most important coastal cargoes were iron and coal, which accounted for over ninety per cent of the coastal cargoes carried in chartered vessels; although, as noted earlier, Greek and Norwegian owners were unhappy about the intensive use of their ships for this purpose.

Similarly ships directly controlled by the British Ministry of War Transport were used for this coastal traffic when cargo space was available and to a much lesser extent Americans vessels, reinforced as 1942 went on, by the American willingness to use newly constructed ships in this way on their first voyage.[3] From April to November 1942 the monthly average of coastal tonnage carried by ships on overseas voyages was 188,000, a figure that was exceeded in 1943.

In addition to direct enemy action, reduction in the carrying capacity on the coast resulted from the introduction of convoys for vessels on the main coastal routes on 8th June 1942. With the inevitable delays in marshalling convoys and their reduction to the speed of the slowest ship, tonnage carried in convoyed ships during 1942 was reduced by amounts estimated variously as high as one-half. Until well into 1943, despite authority for faster vessels to sail out of convoy, the reluctance of crews to sail thus made convoying a serious handicap on tonnage carried.

The first, natural, reaction of Australian authorities had been to seek more ships from Britain and the United States, which by now between them virtually controlled the world supply. Repeated representations were made to London and Washington, stressing especially the need for ships to carry coal and iron ore. Thus in July a cable to both set out the position. The reserves of iron ore, for example, in Newcastle and Port Kembla were set at 300,000 tons; usage to the end of the year at 1,200,000. With the present ships available 540,000 tons could be moved if there were no further losses. There were four overseas chartered ships engaged in moving iron ore and a further five to seven were to be allocated to the work, and these could be expected to carry another 400,000 tons. The conclusion was that all reserves would be exhausted by December, and the blast furnaces could not function if they were dependent on precarious further supplies. A similar gloomy position was presented for coal.

In the exchange of frequent cables Australia stressed the overall shortage of ships, the heavy losses and expanding needs. London was more responsive than Washington. Australian requests to both were a mixture of the case for more ships in general, and specific requests for particular vessels as it appeared they might become available. Thus, knowledge of some Dutch vessels in India inspired requests which London supported, and eventually yielded six small ships. Similarly an Australian request for Yugoslav ships to be diverted from the Chilean nitrate trade succeeded because of British Ministry of War Transport sponsorship. Arguments that

[3] The much lesser contribution of American ships than British ships is partly accounted for by the different overseas voyages engaged in. British ships commonly approached from the west bound for Australian east coast ports. American shipping was predominantly engaged on Pacific voyages.

Norwegian ships being used exclusively in the South-West Pacific Area by the American Army should be pooled were less successful. The primary need, it was stressed repeatedly, was for large ships of 8,000 tons capacity for coal and iron ore, and other bulk cargoes, but any ships were useful since reallocation of vessels could help the critical need for ships for these coastal cargoes. There were some successes. The United States War Shipping Administration was not easily convinced of the desperateness of the situation (to some extent influenced by American reports of inefficient port labour and slow turnaround) and was not prepared to make long-term allocations of ships to Australia. Rather it was disposed to make its chief assistance in the form of the first voyage of newly constructed ships to Australia, or short-term allocations of ships for carriage to and from Australia, to release others for coastal work. Thus London reported in July that the War Shipping Administration had agreed to allocate three voyages a month to supplies for Australia and offered "first sailings" in addition. In September the War Shipping Administration released two small ships to Australian control.

Every piece of such assistance was valuable, but the total relief during 1942 was small. The Dutch ships from India could not arrive until near the end of the year, and for a time there was fear that the United States Army would take permanent control of them beyond the six months for which the Americans were conceded the use of these ships. The War Shipping Administration was not prepared to make other than short-term commitments of its vessels. Those ships which did become available to Australia were in any case usually old, slow, small and in need of repair.[4]

The demands of coal and iron ore on shipping provided by overseas ships in Australian waters has been noted. What emerged in 1942 as the key demands on such coastal shipping as was not requisitioned, were the movement of coal from Newcastle to Melbourne and Adelaide and shipment of iron ore from South Australia to Port Kembla and Newcastle. In the first two years of war the inroads on the coastal fleet had been small, and large stocks of iron ore at Newcastle and of coal in Victoria and South Australia had coped with short-term fluctuations in shipping But in the early months of 1942 shortage of ships, longer turnaround and the demands on the vessels for military purposes produced a rapid run-down of stocks.

At first the Shipping Control Board was not greatly alarmed, apparently believing that use of overseas vessels to carry these two commodities, and greater co-ordination in the allocation of cargoes over the coastal fleet would be adequate.[5] But by June the inability to meet demands seemed desperate. Moreover other needs were not being satisfied. In May, for example, the Shipping Control Board was considering a great accumulation of civilian cargo for Western Australia (heavily dependent on the eastern States for manufactured goods) which there seemed no immediate

[4] Thus a cable to London on 16 Oct protested that certain Norwegian ships would be laid up for repair for a considerable period, although hire had to be paid in full.

[5] For example, Shipping Control Board Meetings, 3 Feb 1942.

prospect of moving. The introduction of coastal convoys reduced the carrying capacity of a fleet already depleted by Service requisitioning, both Australian and American. But coal and iron ore were the main sources of worry. The Victorian Railways had eight weeks supply of coal, Victorian gas works six weeks, Commonwealth Railways in South Australia barely four weeks. The iron ore to be moved was 200,000 tons a month; ships available to the Shipping Control Board could carry 90,000 tons a month. Help from overseas ships was confidently expected but the amount and timing were uncertain because of their dependence on convoys. If there were no further losses and no further increase in demands, deliveries of ore would be deficient by 300,000 tons by December. In short the prospect was of complete using up of Broken Hill Proprietary's reserves of iron ore; one Newcastle blast furnace would in that event have to close down. Inability to deliver enough coal to South Australia would mean that the Whyalla blast furnace, already working below capacity, would have to stop altogether.[6]

LABOUR

The Seamen's Union

The wide powers of the Maritime Industry Commission have been noted; these covered arrangements to implement a 44-hour week for seamen, determine conditions of leave, preference in employment, war risk bonus payments, use of inexperienced labour, accommodation and catering and so on; later, maintenance of discipline on ships was added.[7]

One of its first tasks was to deal with the serious shortage of crews, by various relaxations of established rules, and by restrictions on the freedom of seamen and employees to terminate employment. Qualification for promotion were lowered. A captain who had made diligent efforts to recruit a full crew could put to sea with as much as twenty per cent below his complement. To prevent men working for brief periods, a seaman was required to serve at least one month. On the other hand, to ensure a flow of experienced recruits, deck boys could not be discharged without the Commission's approval. At the end of 1943 to retain a right to employment as a seaman, a man must serve at sea not less than 125 days in each six-monthly-period.[8]

On the other hand the Commission was responsible for various gains to seamen. Introduction of a 44-hour week for seamen, as a matter of government policy, was covered by some thirteen orders issued on 10th March 1942. The Commission took over from the Arbitration Court power to determine war risk bonuses, and by a series of orders varied these, the general effect being that for the remainder of the war seamen on ships proceeding outside Australian waters received a bonus of 50 per cent, those on voyages within these waters from 25 to 33⅓ per cent. There were provisions for maintenance and repatriation of crews of ships lost or

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[6] Shipping Control Board meeting 1 May 1942 and papers presented to it.
[7] National Security (Maritime Industry) Regulations, Statutory Rules 1942, No. 68, 13 Feb.
[8] Various Orders of the Commission dated 14 Jan, 6 May, 20 May, 24 Jun 1942; 2 Sep, 29 Dec 1943.

Today's Armstrong **"MY COUNTRY, 'TIS OF THEE!"**



Armstrong in Argus *(Melbourne), 2 Apr 1943.*

disabled; and a variety of other improvements in the conditions under which seamen worked.

Nevertheless the industry continued to be characterised by the indiscipline and hold-ups over petty disputes which were normal when the Commission was established. Indeed these were primary factors behind its creation—refusal to sail, desertion, absence without leave, refusal to obey commands, drunkenness and the like. Accordingly the Commission was given wide powers of discipline which included the power to exclude a man from employment as a seaman (which subjected him to call-up or to Manpower direction to other employment). Penalties ranged through reprimands, fines, suspension, exclusion from the industry, the last being made automatic after three bad discharges.[9] There *was* considerable improvement in discipline, but this is a comparative statement. In 1942 the Commission still had to deal with 188 cases of ship disputes. With the passing of the immediate Japanese threat to Australia the Seamen's Union became more intransigent, and only retreated, partially, in the face of strong action by the Commission firmly supported by the Prime Minister. One notable example in May 1943 was the dispute over fines imposed on seamen of the Australian coastal steamer *Canberra* who refused to sail one man short—when the Seamen's Union member withdrew from the Commission, the Prime Minister supported the Commission's stand, and naval ratings manned the ship.[1]

From outside the Seamen's Union actively fought the Commission's decisions, and sought to have it replaced by a separate authority for Seamen's Union claims. But the Commission and the Government stood firm. In September 1943 seamen refused to supply crews for ships at Newcastle; the ships sailed with naval crews. In December 1943 the Prime Minister intervened directly in a strike over convoys at Melbourne which threatened to tie up all ships there. Temporarily, at least, the Union ceased its open opposition and in April its representative again attended meetings of the Commission.[2]

Stevedoring

That engagement of labour for wharf work was very much an industrial bargaining business until the establishment of the Stevedoring Industry Commission has already been noted in recording the creation of the Commission. Employers selected their own labour; men selected their own jobs. Details varied from port to port. Thus in Melbourne, Brisbane, Adelaide, Newcastle and some Queensland ports entry to wharves in search of work was limited to those classified as first and second preference

[9] Disciplinary powers given by Maritime Industry Regulations of 13 Feb 1942. Power to exclude expressed in Maritime Industry Commission Order No. 8 of 2 Mar 1942. In practice, the severity of these powers was blunted. For example, although a master was formally required to report on each seaman discharged, no action was taken if he declined to report so that automatic exclusion would not follow.

[1] The Union representative withdrew on 2 June (the dispute began on 23 May) and did not again attend until April 1944. The *Canberra* sailed on 4 June 1943.

[2] This summary account leaves out the frequent inter-union conflicts, notably those between Seamen's and Marine Stewards Unions, which effectively started because the latter were not given representation on the Commission.

men; each class in turn could offer for work on a particular ship subject to being accepted by the stevedoring companies' foremen; if more labour was needed the choice could then extend to "no preference" men who were not admitted to the wharf.[3] At Sydney, there was no order of preference.

Under these arrangements many men, including those with small experience and only casual association with wharf work, could avoid call-up by claiming to be wharf labourers; they could pick and choose which cargo they would work, and when they would work (night work, for example was more highly paid). Partly prompted by scathing criticism from the Americans, and their evident determination to use their own troops if handling of cargo did not improve, there were a series of conferences in early 1942, the important one being the second.[4]

Succinctly two needs were reported: more effective organisation of labour and better handling equipment. Since the latter would take time, action should concentrate on the former by establishing a special authority to supervise wharf labour. The outcome was the Stevedoring Industry Commission in April 1942. For the first two years it met, normally fortnightly, in Melbourne.[5] Before its establishment a Waterside Employment Committee had been established in Melbourne in January; this was taken over by the Commission and similar committees created at other ports.[6] These comprised equal representatives (three at larger ports) of employers and workers under an independent chairman, and their function was to manage the use of waterside labour at each port within the Commission's powers and directives. By June 1942 almost all ports had such a committee in operation.

Their first task was to establish a quota of men considered necessary for regular employment at the port and then to register approved applicants (which provided an opportunity to eliminate the unwanted, both in number and quality); those retained became members of the Waterside Workers' Federation.[7] There was a further reserve register of men in other occupations available if necessary for some wharf work. Employers were also registered.

Initially free choice by employers among registered men and by men among jobs remained, but ship delays were so great that the Commission was forced to issue rules governing offer and acceptance of employment. The most important, in May, was that, initially in Melbourne and later

[3] This "licensing" system had been provided for by the *Transport Workers Act* (No. 37 of 1928).

[4] Attended by representatives of the Shipping Control Board (Sir Owen Dixon), British Ministry of War Transport (Sir Thomas Gordon), United States War Shipping Administration (C. E. Brown), Waterside Workers' Federation (J. Healy), which commissioned Dixon, Gordon and Healy to recommend action.

Two other unions existed: the Fremantle Lumpers' Union, at that port only, later absorbed into the Waterside Workers' Federation; and the Permanent and Casual Wharf Labourers' Union, established during the 1928 Melbourne waterfront strike. It was prohibited from 2 Apr 1942 from accepting new members. Except at Fremantle the Waterside Workers' Federation was predominant.

[5] From February 1944 its headquarters were at Sydney.

[6] The January plan had contemplated committees at other ports. National Security (Waterside Employment) Regulations, Statutory Rules 1942, No. 19, 28 Jan.

[7] Unless already members of Permanent and Casual Wharf Labourers' Union.

elsewhere, workers were organised in gangs of seventeen men engaged as units; as the application of the system developed it became normal for gangs to be rostered to particular jobs without regard to preferences of men or employers.[8] Other rules provided for round the clock working; for trying, with limited success, to restrict hours worked by men to 56 per week, and so on.

When the Commission was established the Waterside Workers' Federation had a log of claims before the Arbitration Court, decisions on which were passed to the Commission which from then on was responsible for determining a constant flow of industrial issues. These ranged over membership and working of gangs; allowance for specially unattractive jobs; unauthorised stoppages; use of unfit and disabled workers; transfers of labour between ports and a variety of other issues. Much time was occupied with application of the Commission's disciplinary code. Employers retained their right to dismiss individual men; the Commission had power to suspend a man or exclude him from the industry, but use of this power frequently resulted in confrontation with the Union and interruption to work.

When the Americans first arrived early in 1942 they used their own troops to load and unload key cargoes, and this led later to intermittent use of Australian troops on wharf work, in due course organised as Docks Operating Companies. Potential union hostility was blunted by the introduction of quotas of registered wharf-labourers, so that troops were normally used only when there was excess cargo to be handled, and by the provision, from May 1942, that employers must pay for Service labour at award rates of pay.

The effect of the Commission's activities was a transformation of the industry from a notoriously turbulent, ill-organised form of casual employment. In surrendering the right to free choice of labour and of time of working their ships, employers gained an organised and, on the whole, certain supply of labour. Workers lost the free choice of jobs and of whether to work or not, but gained greater security and continuity of employment, as well as the great improvement in the conditions and rewards of their work which flowed from the Commission's determination of matters previously the province of the Arbitration Court. To some extent these improvements followed simply from the removal of casual haphazard conditions of the stevedoring labour market; to some extent employers were prepared to agree to changes because in the short-run they were largely protected from their financial costs; but a major factor was the key role of J. Healy[9] of the Waterside Workers' Federation who dominated discussions of industrial issues at the Commission's meetings with skilful and well-based advocacy of the workers' claims.

[8] Each gang contained at least one hatchman, two winch drivers and six hold workers. At some smaller ports the gang system was not introduced or introduced incompletely.

[9] J. Healy. Gen Sec Waterside Workers' Fedn of Aust 1937-61; Mbr Industrial Relations Council, Stevedoring Industry 1942-49. B. Manchester, UK, 22 Mar 1898. Died 13 Jul 1961.

CARGO CONTROL

The immediate origin of the Central Cargo Control Committee was a report in April by A. C. Moore[1] of Import Procurement in the Department of Trade and Customs, on the causes of congestion on the wharves, intensified as it had recently been by the discharging of cargoes from refugee ships and an increasing flow of Lend-Lease goods.[2] His diagnosis traced the congestion to lack of centralised port control, inadequate wharf storage, inadequate land transport to and from wharves, inadequate warehousing away from wharves, insufficient stevedoring labour, poor cargo handling facilities. Land transport matters became the task of the Department of Transport, labour problems that of the Stevedoring Industry Commission (under the Minister for Labour and National Service) and cargo control the responsibility of a new body, the Central Cargo Control Committee (under the Minister for Trade and Customs).[3]

The difficulties inherent in this splitting of responsibility for different aspects of the same activity between three different bodies, each associated with a different department, were accentuated by the membership of the Committee whose ten members included representatives (in addition to a chairman and an executive member) of Trade and Customs, Army, Transport, the Central Wool Committee, the heavy carrying industry and of the unions, but none of the shipping companies or of the Stevedoring Industry Commission, and only one of harbour authorities (to the manifest disapproval of State governments, for harbours were a State matter).[4] In practice the Central Cargo Control Committee could only function in consultation with a variety of bodies—the Stevedoring Industry Commission, Land Transport, United States War Transport authorities, the Australian Services, British Ministry of War Transport and harbour authorities, conferences with whom both at central and State level during 1942 and 1943 were a frequent and time-consuming way of securing co-ordinated action.

The powers given to the Committee were, within its field, comprehensive. It could direct the movement of goods to and from wharves and their storage; take possession of or build stores and warehouses; acquire any necessary equipment. In practice these powers were exercised by persuasion and consultation not by the issue of legally binding orders, if

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[1] A. C. Moore, CBE. (1st AIF: 7 ALH.) Asst Compt-Gen Customs 1935-46; C'wealth Dir of Import Procurement 1941-46; Man-Dir Coca-Cola Bottling Co, Sydney, 1946-54. B. Strathbogie, Vic, 1 Mar 1898.

[2] Submitted to Cabinet on 14 Apr 1942.

[3] Established by National Security (Cargo Control) Regulations, Statutory Rules 1942, No. 195, 23 Apr.

[4] The shipping company omission was formal, not real. Indeed A. C. Moore complained that the representatives of various organisations on both the Central Committee and the State committees to which it delegated local control included too many from shipping interests. The complaints of the State harbour authorities were brushed aside in a letter from Minister for Trade and Customs to Prime Minister, 6 Jun, which made plain that Moore's concept was of decision-making being vested in the Central Committee and execution, where appropriate, dutifully carried out by State bodies.

only because of the overlapping in all directions of the legal powers conferred on the Committee with those of a multiplicity of other bodies.[5]

From the nature of the Committee's functions the major part of its work was in detailed day to day expediting of cargo movements. For this purpose early action included some general measures such as reduction in the number of separate cargo marks, and of small consignments, and improvements in the processing of shipping documents. Primarily in association with the Department of War Organisation of Industry priority rules for coastal cargo were developed, with the intention of eliminating the non-essential, and by the prospect of delay discouraging goods of low priority. This was an issue of long standing. As early as April, the day before the Central Cargo Control Committee was formally created the Allied Consultative Shipping Council had resolved to establish priority committees at each main port to determine priority in berthing, loading and discharging of ships. By October such committees existed in Western Australia and Tasmania, but in other States the work was done by tariff committees mainly representing shipping companies; these committees did not however deal with priorities for individual commodities.[6] There was a general reluctance among shipping authorities to become involved in this field. For those authorities which included representatives of shipping companies this is understandable. But the Department of Commerce, while priorities fell within its field, was also reluctant, and after the creation of a department of Shipping, its Director of Shipping, Sir Thomas Gordon, opposed accepting any responsibility, even limited willingness to participate in inter-departmental discussions to providing an observer, not a member.[7] When the Department of War Organisation of Industry's general claim to be able to decide priorities was extended to questions of interstate cargoes, shipping authorities were ready to let it have both the responsibility and the abuse.[8]

On another problem the Central Cargo Control Committee was much readier to act, perhaps because it was much more directly concerned with what members saw as their central task: speedy movement of whatever cargo was offering. The problem concerned improvement of port facilities

[5] Illustrative of the divergent views of the various bodies concerned with shipping was a conference of the Central Cargo Control Committee and the Dept of War Organisation of Industry on 20 Aug 1942, at which an interim list of non-essential goods was agreed upon as a preliminary to issue of a shipping cargo priority list. The Central Cargo Control Committee took the occasion to challenge the Shipping Control Board's policy that non-priority cargo should be carried rather than have a ship sail with vacant space. Central Cargo Control Committee argued that the dominant consideration should be speed of turnaround, and only priority cargo should be carried.

[6] Secretary, Dept of Commerce to Shipping Control Board, 7 Oct 1942. Sir Thomas Gordon to A. V. Smith, Secretary, Dept of Supply and Shipping, 11 Nov 1942.

[7] During 1942 the committee, brushing aside established authorities, acquired for conversion to heavy-lift floating cranes three large ferry vessels; acquired a number of lighters and tugs, including large lighters and pontoons for Townsville, mobile cranes, wharf trucks and other equipment. The friction with established port authorities became so acrimonious that one of the early actions of the new Directorate of Shipping was to remove this whole area of activities (which in any case went beyond the cargo-expediting function) to a specially created Port Equipment and Development Committee.

[8] War Organisation of Industry, since it had asserted, and been conceded, some measure of authority in questions of priority in a number of fields, including land transport, could have been regarded as the logical authority, but the department's activities were somewhat remote from shipping, and its claim was conceded, less on grounds of rational allocation of functions than because other authorities did not want an unpopular activity, discharge of which was nevertheless essential to them.

(for example at Townsville where heavy war traffic had been thrust upon its modest peacetime resources) and of cargo handling equipment. Unfortunately these were the responsibility of State harbour authorities, barely represented on the Central Cargo Control Committee, who felt that their expertise was being pushed aside, and that decisions were being taken which would ultimately leave them with permanent problems, particularly as much of existing port equipment had been removed to meet the pressing requests of the Australian and United States armed forces.

Predictably, the multiplication of separate organisations, responsible to different departments, each dealing with a segment of the shipping problem, produced inefficiency, recriminations, and conflicting policies. Some of the difficulties were the obvious product of war. The size and tonnage of the Australian coastal fleet had been depleted by naval requisitioning, the sharp increase in Army demands for ships, losses by enemy action and temporary unavailability of damaged ships undergoing repair. In the rapidly changing situation of war in the Pacific, and as the Australian economy was remoulded, there was a greater volume of goods to be carried.

But these were the problems for the solution of which these various administrative organisations had been created, and during the first half of 1942, collectively, their performance was unfortunate. Each had its own sphere of responsibility and tended to remain within it, if only because no formal machinery for co-ordination was provided, and indeed some of the leading figures actively opposed other than informal consultation on an *ad hoc* basis. Personal ambitions of some departments matched resistance to loss of territory by others, and both encouraged fear by shipping interests, which were represented on every administrative body and were dominant on some, of comprehensive government control of shipping which might outlast the war.

In this situation the easiest defence against criticism was to point to the failing or alleged failing of some other authority. Thus, for the decline in cargo carried on the east coast the Shipping Control Board gave as a major reason the decline in effective use of ships, alleged to be forty per cent, caused by unsatisfactory convoy arrangements. The Navy retorted that the decline was much smaller, at its worst 22 per cent in June, reduced to 13½ per cent by August, and was in any case primarily caused by ships missing convoys because of crew trouble and slow cargo handling so that ships sailed part-loaded.[9] The Coal Commissioner explained difficulty in moving coal from New South Wales to Victoria as being the result of slow unloading in Melbourne; this was in turn explained by the Stevedoring Industry Commission as the inevitable result of indiscipline and inefficiency of the wharf labourers—which passed responsibility to

[9] There is no way of deciding who was right about the percentages, and it would hardly be worthwhile to try in any case. Some loss was inevitable with convoying if only because the slowest ship determined the speed of all. But the only real improvement in convoying which could have helped would have been provision of more escort vessels, out of the question in 1942.

the Maritime Industry Commission and the unions. The Shipping Control Board devised a system of priorities for cargo, which worked badly for a number of months during 1942, because, so it was claimed, too many different authorities were able effectively to determine priority in disregard of one another. The Shipping Control Board took the line that if priority cargo was not available, the space should be filled with whatever was offering. The Central Cargo Control Committee complained that this undermined its control; ships should sail part-loaded to save time; and there should not be encouragement of disregard of control by shippers who, with some persistence, could hope to find space at the last minute, meanwhile cluttering the wharves with non-priority cargo. It was alleged that United States vessels were persistently accepting cargo without regard to its priority rating, making a full loading the primary criterion. By contrast the Central Cargo Control Committee was accused of neglecting opportunities to make return shipments from Melbourne to Sydney by ships which had carried coal south.

What matters after the event is not assessing the substance in these accusations. They are important as indicating some of the wide-ranging criticism of the way the uncoordinated system of controls was failing to cope with the demands on shipping because it was uncoordinated, and the natural reaction of an authority under fire to divert the attack by pointing more or less plausibly to the sins of another authority.

Some of these issues came into focus at a conference in July 1942, convened primarily to seek ways of expediting the carriage of coal.[1] To emphasise the importance of the matter Curtin opened it with a statement which indicated the way he at least would have wished the conference to go: "The Government wishes to have one person or authority to see that all shipping available to Australia and the allied nations operating in Australian waters is being put to the best and fullest use." Perhaps inevitably much time was spent in complaints about the way this or that authority was at fault. The Minister for Supply, J. A. Beasley, responded by reiterating that what the various speakers were demonstrating was that in part the problem was organisational and that just as Sir Thomas Gordon was controller of overseas shipping, there should be a controller for coastal shipping. The conference adjourned with lukewarm support for the suggestion that Mr Justice Clyne,[2] who had replaced Dixon as chairman of the Shipping Control Board, should be appointed such a controller.

No direct action followed, although there was more evidence of individual authorities seeking to relate their activities to those of other bodies. The Central Cargo Control Committee conferred with officers of War Organisation of Industry to discuss general ideas about cargo priorities, agreeing to prepare lists of goods regarded as non-essential, to be followed by a schedule of priorities for others.[3] The Department of Commerce

[1] Held in Canberra 31 Jul 1942. Present were Ministers for Supply and Development (Beasley) and Commerce (Scully) and representatives of other departments and shipping authorities.

[2] Hon Sir Thomas Clyne. Judge, Federal Court of Bankruptcy 1942-67, Supreme Court of A.C.T. 1943-45. B. 1887. Died Apr 1967.

[3] Conference on 20 Aug 1942.

sought the support of Supply and Development in organising discussion between the chairman of the Shipping Control Board and General Blamey as Commander-in-Chief on efficient use of ships sought by the Army to carry cargoes to Port Moresby and Milne Bay.

But more substantial moves were afoot through the Allied Supply Council, of which Beasley was chairman. There the dissatisfaction of Australian authorities and Beasley's views as to the organisational solution found support from the Americans who took the view that Australia could not expect the United States to make ships available until it had put its own house in order and made more effective use of those it had. The Council endorsed a proposal for an inquiry into the facts by an officer from the Department of War Organisation of Industry and a United States investigator.[4]

A series of memoranda[5] covered the investigations by the departmental officer. He traced the unduly slow turnaround of ships to the rate of unloading, to convoying, carriage of non-essential cargoes when space was available, to poor cargo handling facilities, and to the multiplicity of agencies dealing with these various matters.[6] The lack of any statistical record in a form to guide policy-making was stressed, as was the low productivity of men on the wharves. The Navy was largely exonerated on the convoy issue; it was doing what it could with the available naval escorts.[7] The memoranda had a gloomy story to tell of cargo handling on wharves. There was little discipline; some men deliberately fomented trouble; pillaging was rife; supervision was bad because of lack of good foremen; amenities were poor. The introduction of a gang system and registration of workers had been intended to stabilise the numbers required but, it was suggested, replacement of casual rates by a weekly wage could substantially reduce labour needs—from 4,800 to 3,500 in the port of Sydney. The shipping companies were equally criticised for their attitude to labour, and for good measure, the Stevedoring Industry Commission was characterised as a specialised industrial court of part-time members too remote from the day to day problems.[8]

The final report for the Allied Supply Council traversed much the same ground, but except by implication confined itself to recording the nature and source of failures to use the restricted supply of shipping to best advantage. But the implications were there, and readers could not fail to

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[4] Beasley, Supply and Development, to Scully, Commerce, 9 Sep 1942. The Allied Supply Council move was reinforced by letter from the United States Minister to Australia to Curtin 31 Aug 1942 stressing the need to speed up ship repair. (Estimates of ships awaiting urgent repairs throughout Australia at this time were 75,000 to 100,000 tons.)

[5] The officer seconded from War Organisation of Industry was Murray Angus, who, since he was then working for the Allied Supply Council, reported to Supply and Development as the department concerned. He kept the Secretary, A. V. Smith, informed of his investigations in a series of memoranda. Though several Americans were involved in the inquiry, the report was formally by Angus alone.

[6] Memoranda 22 Sep 1942. The theme of multiplicity of agencies was enlarged in a letter to Lt-Col Kramer the same day. He was United States Army representative on the Allied Supply Standing Committee.

[7] Memorandum of 25 Sep 1942.

[8] Memorandum of 4 Oct 1942.

draw the conclusion that effective solution required administrative reorganisation and integration. For the first time a survey of the sorry position was systematically set out in a single document, to be seen by a range of senior Ministers and public servants, and by American representatives (the activities of whose own people did not escape unfavourable notice). There might still be room for argument about the accuracy of particular details, and for defensive explanations from particular authorities, but few of those who eventually had to consider the report could fail to be convinced.[9]

Meanwhile by Cabinet direction and despite rumblings from some of them, the Shipping Control Board, Land Transport Board, Stevedoring Industry Commission and Central Cargo Control Committee and other bodies were invited to consider whether their activities should be brought under one organisation or otherwise co-ordinated.[1] The proceedings testified to the strength of separatist feeling among the various organisations, and, by implication, to their opposition to what they saw as the imperialist ambitions of J. A. Beasley, and A. V. Smith[2] who, it was felt, wanted to add shipping to the already far-ranging territory of the Department of Supply. In varying terms spokesmen for every body represented (except Land Transport) condemned any substantial change in the present constellation of authorities, and while in general they gave lip service to "co-ordination" this, it was suggested, could be sufficiently achieved by using existing provisions for consultation (as in regulations for the Stevedoring Industry Commission and the Central Cargo Control Committee) and by conferences of the bodies concerned with shipping which some thought ought to be irregular informal meetings.[3]

The conference testified to the inability of participants to face the main issues, the failure of the existing structure to function without a great deal of inefficiency, waste of shipping resources, and friction, but it also indicated the evident determination of senior Ministers, no doubt pressed by Americans, to seek an administrative solution. The report went to the Allied Supply Council with an addendum from A. V. Smith containing clear-cut recommendations; that all existing agencies be combined under one authority controlled by a single executive, the choice of whom would

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[9] Thus Mr Justice Piper's comments to A. V. Smith on the report, explaining for example, that the Stevedoring Industry Commission did not have police powers to deal with pillaging, touched only on peripheral points.

[1] Those who attended on 6 Oct were: Mr Justice Clyne (Shipping Control Board), J. F. Murphy (Commerce), J. F. Brame, H. Sullivan (Shipping Control Board), Mr Justice Piper (Stevedoring Industry Commission), Sir Herbert Gepp (Central Cargo Control Committee), Sir Harold Clapp, D. J. Howse (Land Transport Board), G. T. Chippindall (War Organisation of Industry).

[2] A. S. V. Smith, CBE. Exec Mbr Contracts Bd and Sec Principal Supply Officers Ctee 1933-36; Chmn Contracts Bd 1939; Sec Dept of Supply and Shipping 1942-45; Dir Emmco Pty Ltd 1947-56. B. Melbourne 1893. Died 9 Feb 1971.

[3] Notes of the conference (Dept of Supply, Shipping file C.10.2). With the exception of Land Transport and War Organisation of Industry representatives, all were spokesmen for bodies under attack, defending their record and their independence, Chippindall (War Organisation of Industry) seems to have been swayed by opposition to a massive enlargement of the Department of Supply, but said little. Gepp of the Central Cargo Control Committee put into words the resentment of others that, it was believed, American pressure on Curtin and through the Supply Council lay behind the Government's attitude.

be critical, and that executive to have adequate power and the full support of the Government in its exercise.[4] With alacrity the Allied Supply Council added its own endorsement of these proposals, which it intended should go forthwith to the Prime Minister, the War Cabinet, and other Ministers.

The War Cabinet was equally prompt in decision and lost no time in transferring control of all agencies concerned with shipping to a renamed Department of Supply and Shipping.[5] Nine days later Sir Thomas Gordon was appointed to the newly created post of Director of Shipping,[6] and reorganisation of shipping administration proceeded rapidly.

Although formally there was a single department of Supply and Shipping, and contemporary organisation charts give an illusion of integration, the organisation adopted was more nearly that of two departments with a single Ministerial head, one headed by a Director of Supply, the other by a Director of Shipping. To Gordon's direct control as Director of Shipping were transferred all the existing bodies dealing with shipping,[7] although in fact the Maritime Industry Commission as much because of the political issues in labour relations as because of the Commission's quasijudicial functions remained directly responsible to the Minister. The overseas shipping committee was abolished but otherwise, on the surface, all these bodies continued as before, as forecast by Gordon in an outline of his plans supplied to Beasley in November.[8]

But their operation was nevertheless changed. These bodies were now all part of the same department responsible to the same director and thence to the same Minister. This alone was of decisive importance in changing attitudes and encouraging a willingness to communicate and co-operate which had often been markedly lacking. Gordon created a Central Secretariat of modest size and either he, a member of this secretariat or a representative attended meetings of the various administrative bodies taken over (and others soon to be created). It was not perhaps the organisation chart that would have been drawn on a clean slate but under the war conditions of 1942 the general line of approach was the only practicable one. The complex and wide-ranging problems of shipping meant that in any case, in the short-run, primary reliance for technical knowledge and expertise had to be placed on men drawn from the shipping companies, and only ill-feeling and disruption could have followed their replacement by others, drawn from the same sources to do

[4] The addendum which, with the Angus report, became Agendum 32, Supplement 2, Allied Supply Council meeting 13 Oct 1942, was prepared by Smith, W. E. Dunk of the Treasury, Denby of the Lend-Lease Mission to Australia, and Lt-Col Kramer of United States Army Services of Supply. Almost as an afterthought the need for more ships was stressed.

[5] Legally the main change was consummated in a brief amendment to Shipping Control Regulations, substituting "Supply and Shipping" for "Commerce" as the definition of "the Minister" which had the practical effect of transferring all shipping agencies previously responsible to Commerce. (Other amendments followed in respect of bodies not attached to Commerce.) Statutory Rules 1942, No. 453, 20 Oct.

[6] War Cabinet Minute 2467, 29 Oct 1942. The minute speaks of "Controller" (as did earlier documents) but in the event the title used was "Director".

[7] By delegation to Gordon from Minister for Supply and Shipping dated 19 Nov 1942 of his powers and functions under amended Shipping Control, Maritime Industry, Stevedoring Industry, Shipping Requisition, Cargo Control, Shipment of Coal regulations.

[8] Letter of 6 Nov 1942.

much the same jobs in a formally more integrated structure. In any case previous failings had been those of the uncoordinated operation of separate bodies, not of persons.

Indeed the chief achievements of the new Directorate in its first few months were embodied in an extension of the same type of structure. A British-American-Australian Shipping Committee composed of representatives of the British Ministry of War Transport, the War Shipping Administration, Shipping Control Board, United States and Australian Armies, Australian Navy and Air Force, came into formal existence in April 1943. It provided the means for treating all shipping in Australian waters as one pool, so far as that could ever be possible, and for relating this pool to the total demands on it. British or American ships on passage around the Australian coast need no longer be the subject of *ad hoc* negotiations, but were for that time part of the total pool. Operational requirements of the Services had to be presented as part of the total demands on the pool with, as a result, more chance of being satisfied promptly, certainly with less friction. Supplementing this channel for high level international co-ordination of tonnage and the demands on it, a formal liaison with the Department of Transport was created, directed particularly to relating rail and sea transport which were both alternative carriers for some goods, and successive stages in the transport of others. So too a Tonnage Committee within the Shipping Control Board structure was set up to relate the operation of ships under the control of the Ship Chartering Committee and those of the Board.

Even more promptly, on 26th January 1943, an administrative solution was sought to the conflicts between the Central Cargo Control Committee and the various State port authorities over the demarcation of their functions, a solution based on acknowledging that on the equipping and running of ports, the port authorities not only had claims to a decisive voice in what happened in their own ports but were the available experts in this field. Their position on the Cargo Control Committee was strengthened by increasing their membership by two, but even more important a Port Equipment and Development Committee, made up of members from Queensland, New South Wales, Victorian and South Australian port authorities, was recognised as the authority competent to advise the Department of Supply and Shipping on provision of additional wharf equipment and on port development generally.

The other change in organisation in this early period of the new department was a revision of the role of the Ship Repair Committee which had been initiated by Gordon in July 1942. Demands for repairs had become acute during 1942, not only because of enemy action but also because operation of ships under war conditions—absence of lights, radio silence, convoys, operations to the north in unfamiliar reef-strewn waters —meant many accidental strandings and other damage. Carrying out of repairs was the executive responsibility of a Controller of Ship Repairs in the Department of Munitions who had to compete with the demands of new ship building. The committee could therefore have only advisory

functions, but Gordon now strengthened it by creating an Executive Committee which prepared detailed reports for the Repair Committee and by having the Controller of Ship Repairs attend meetings of that committee.

By the beginning of 1943 the effect of bringing together the various authorities concerned with shipping was reflected in the falling away of complaints and in greater confidence that the situation was under control. In part this was an illusion. Co-ordination of agencies hitherto responsible to several Ministers by creating an integrated if loosely articulated single structure resolved conflicts of ambitions and the irritations of divergent responsibilities. It was less easy to divert attention from an unsolved problem by attributing the difficulty to the deficiencies of another agency, and easier to see that the difficulty was a real one which might be soluble or might have to be lived with. These were steps forward, and undoubtedly contributed to the gradual improvement in the efficient operation of the new structure. There was no dramatic improvement—without a large increase in number of vessels or a great reduction in demands for shipping there could not be—but there was smoother operation even if it is not open to quantitative measurement. Industrial relations on the wharves continued to be turbulent; stocks of coal and iron ore at points of consumption remained at precariously low levels; a major military demand or a serious hold-up in the flow of cargoes was still an ever-present possibility. But Gordon could in January 1943 feel justified in his qualified confidence.

One of the factors in the generally more favourable picture by the beginning of 1943 was the greater number of ships now available on the coast. At the outbreak of war there had been a coastal fleet of 231 vessels with a total gross tonnage of 434,327. At the end of January 1943 there were 274 vessels totalling 532,482 gross tons after deducting losses by enemy action and marine risk. But these figures include ships under the control of the Australian and American forces, and those used solely in the movement of military cargo. After deducting vessels temporarily out of action, those released to the United States, tonnage requisitioned by the Australian Services and engaged in shuttle service in northern areas, the balance available for the carriage of essential cargo was a meagre 114 vessels (of which 68 were small intrastate ships) with a gross tonnage of 194,706. To these are to be added the intermittent contribution of ships controlled by British Ministry of War Transport when sailing between Australian ports.

But direct war demands had made severe inroads on the availability of these ships for civilian cargoes. At the end of January 1943 7 vessels were temporarily out of commission undergoing repair; 36 had been released to the Americans together with another 34 made available by the British Ministry of War Transport; 40 vessels had been requisitioned by or were under the control of the Australian Services. Another 15 were engaged in shuttle services mainly in North Queensland carrying mainly Army stores,

but available to carry coal and some civilian cargoes, and a further 28 sailed between Queensland and Papua carrying mainly Service cargoes but with limited space for some civilian supplies. What was left for civilian coastal cargoes was 114 vessels, compared with 231 at the outbreak of war, with a gross tonnage of 194,706 compared with 434,327. Even with generous allowance for carriage of civilian goods on vessels controlled by or primarily serving the American and Australian forces, the carrying capacity of the coastal fleet under civilian control was at best half of what it had been, and munitions and other warlike cargoes were a major demand on that capacity. It was this which made local shipbuilding seem the obvious source of relief.

Gordon, reviewing the situation in January 1943, acknowledged the improvement in the situation compared with that six months earlier but was more concerned to stress the ways in which pressure on the available shipping might be expected to increase.[9] Between April and December 1942 British ships on coastal voyages had carried 487,000 tons, mainly coal, coke and iron ore, the nature of the cargo making the help even more important than the tonnage might suggest. But it seemed probable that in 1943 less help would be available from this source.

This was serious because in the weeks preceding his review it had proved impossible to maintain the flow of coal and iron ore as a result of ships being withdrawn at short notice for urgent military transport. The Coal Commissioner was calling for the movement of 70,000 tons of black coal each week from New South Wales to other States if collieries were not to be forced to close. At the other end stocks continued to be precariously low (five to six weeks consumption in the importing States) despite use of rail carriage of coal. General cargo was accumulating at Sydney, Melbourne and Adelaide awaiting transport to Perth or Brisbane. Relaxation of convoying could not be expected while the development of war to the north implied that there were likely to be more ships damaged by enemy action. Against this two newly built vessels would go into service and five additional vessels being released to Australia by the British Ministry of War Transport could be expected in about two months, little more than enough, according to Gordon, to offset gaps caused by damage or enemy action.

His practical conclusion was that the situation demanded a further 30,000 to 50,000 tons capacity of a type capable of handling bulk cargoes (coal and iron ore) and general cargo. With evident lack of hope about the outcome he advised further approaches to Britain and the United States for more ships "if possible". If war developments put further strain on shipping in carrying personnel and supplies northward this could only be met by a severe cut in coastal services and government direction was needed as to what cargoes should then be treated as of lower priority. Speedier repairing of damaged ships was the quickest route to adding to available tonnage, and might be supplemented by local building of a

[9] Letter to Minister, 27 Jan 1943.

standardised coastal vessel. The situation he concluded was not desperate, but it was unpromising and could become worse suddenly. The prospects of other than marginal improvement were slight. If he believed, as he claimed, that tonnage was now being operated efficiently, there was little choice as to the conclusion and little else in the way of remedial action he could urge.

SHIPBUILDING

The basic policy decisions concerning wartime shipbuilding and the development of facilities had already been determined during 1941.[1] With Commonwealth financial aid expansion had been initiated at Mort's Dock and Cockatoo Dock in Sydney, Evans Deakin in Brisbane and at Williamstown Dockyard, Melbourne; at Whyalla in South Australia, the other shipbuilding contractor, Broken Hill Proprietary Co. Ltd, financed its own development; early in 1942, with financial help from the Australian Shipbuilding Board, the shipbuilding establishment at Newcastle, New South Wales, was revived. (The keel of its first vessel, the corvette *Strahan* was laid late that year.) When in March 1941 the Shipbuilding Board had been established it was with a long-range programme of sixty "A" class vessels to be built at the rate of twelve a year, to which was added a corvette programme, with higher priority, but limited to six.

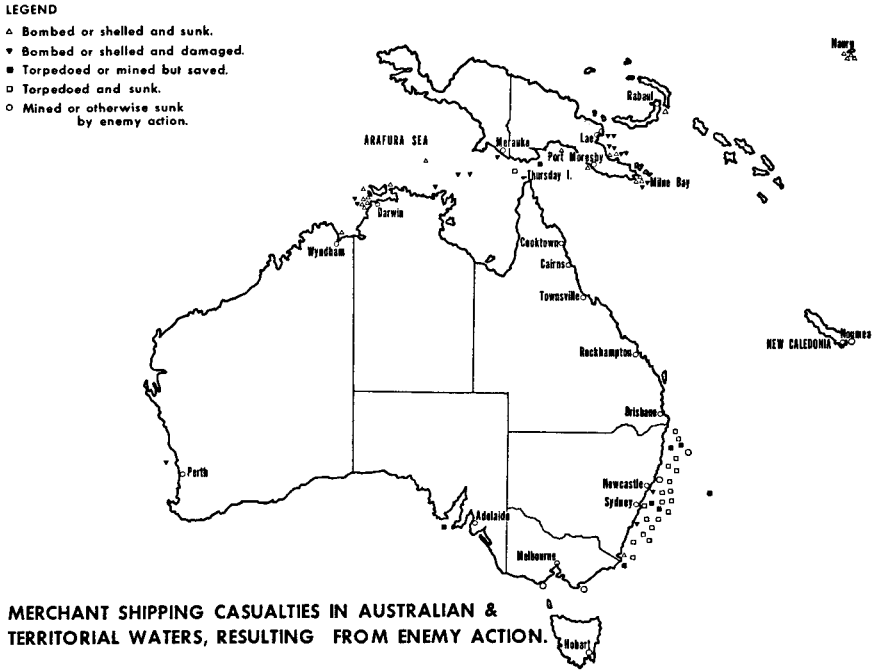
With the outbreak of war in the Pacific, the loss of the shipbuilding and repair resources of Hong Kong and Singapore greatly increased the demand on Australia as a base for repairs not only for the Australian fleet but also for United States, United Kingdom, Dutch and Free French naval units operating in the Pacific.

Initially the chief impact of these new demands was seen as posing a choice of priorities between merchant and naval construction. In January 1942 a review by the Chief of Naval Construction and the Director of Shipbuilding had proposed that building of a further nine corvettes should be endorsed, and that while construction could not be immediately begun, materials and components should be ordered. The War Cabinet deferred decision while awaiting a report from the Shipbuilding Board as to the effect of this proposal on the merchant ship programme.[2] That report drew attention to the relatively low priority attached to shipbuilding which meant that, too often, machinery ordered for ship construction was diverted to projects of higher priority, while the familiar theme of shortage of skilled labour was stressed. But for the central question asked, the key answer was that there was only enough steel plate and sections for one merchant ship per month, and any serious increase in the corvette programme would mean an equivalent decline in merchant shipping. Final approval of the additional corvettes was consequently withheld until November 1942.[3]

But already by March 1942 the centre of concern was the greatly increased demand for repair and maintenance. The Munitions report of that month

[1] See Butlin, *War Economy 1939-1942*.
[2] War Cabinet Minute 1860, 5 Feb 1942.
[3] War Cabinet Minute 2475.

stressed the extent to which construction of ships was being delayed by repair and maintenance of fighting vessels, which understandably took precedence over merchant shipbuilding. War Cabinet went so far as to give shipbuilding and repair priority for tool supply, but higher priority for naval over merchant construction was maintained. But by May repair work was so pressing that repair and maintenance were given priority over all construction.[4] In the following months repair work became even more pressing as the Japanese commenced submarine attacks on shipping along the east coast; and the Shipbuilding Board was called upon to present plans for improving the speed of repair. The principal outcome was the appointment of a Controller of Repair under the Director of Shipbuilding to ensure that the two activities were co-ordinated and that repair work was handled urgently without unnecessarily disrupting construction.



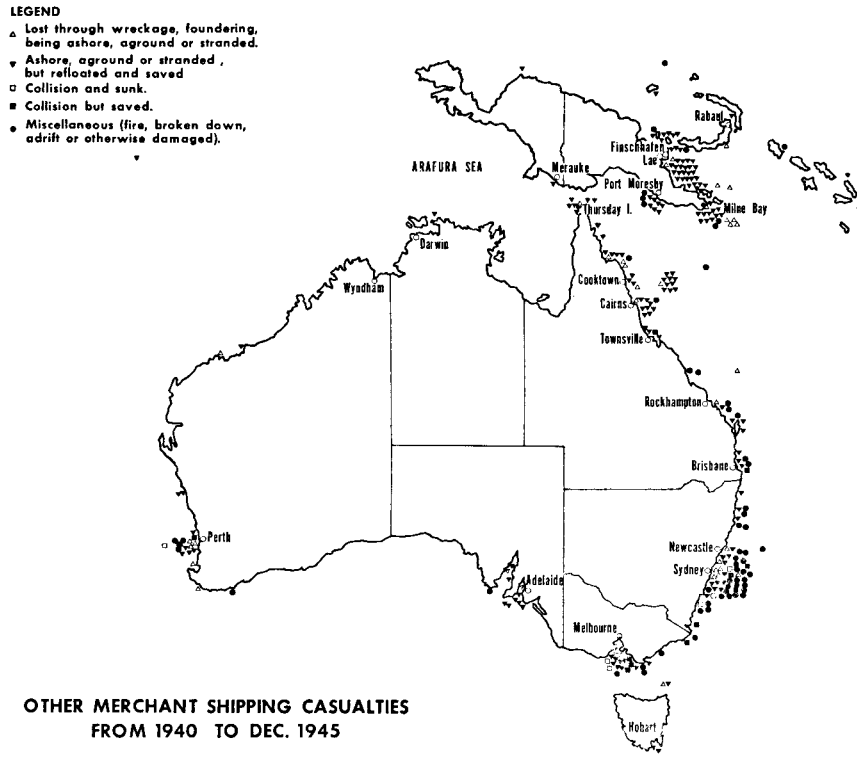
MERCHANT SHIPPING CASUALTIES IN AUSTRALIAN & TERRITORIAL WATERS, RESULTING FROM ENEMY ACTION.

The repair problem was made more difficult by the lack of adequate docking facilities. Construction of the Captain Cook graving dock at Sydney had begun in December 1940 at a time when there was no direct threat to Australia and Singapore seemed secure. The magnitude of the task meant that the dock was not completed in time to help with the period of greatest demand for repair, 1942-43.[5] Similarly the smaller

[4] War Cabinet Minute 2160.

[5] It was available, however, for the British Pacific Fleet when it arrived in 1945.

dock in Brisbane approved in August 1942, although constructed at a remarkable rate, was not completed until June 1944, too late for the main need.



OTHER MERCHANT SHIPPING CASUALTIES FROM 1940 TO DEC. 1945

At the end of October Engineer Rear-Admiral P. E. McNeil, Director of Shipbuilding, completed a report called for by Cabinet. His conclusion was that there was no case for further major construction plans for drydocks, slipways, and repair shops (except for some for small craft). For larger vessels new construction which was already under way would meet all needs provided some deficiencies in machine tools were remedied, and, above all, more skilled labour was available and was more effectively used. He estimated that nearly a thousand extra men were required, most of them for smaller ship repair firms. Although repairs were now being given priority over shipbuilding it was not practicable to stop completely all new construction at short notice for short periods.[6] Others took up the theme stressing the incomplete use of available labour because of demar-

[6] A. V. Smith to Gordon, 1 Feb 1943, said that shipbuilding had become little more than a means of keeping together skilled employees to be deployed on repairs as required.

cation disputes between unions and resistance, especially by boilermakers, to effective dilution of skilled labour.[7]

Prompted by Gordon, Beasley initiated a conference on ship repairs[8] of representatives of the Shipping Control Board, the British Ministry of War Transport, the United States Army and the Department of Munitions, which reviewed the sources of difficulty and delay already identified —dilution of labour, union demarcation issues, shortage of boilermakers and other tradesmen and the need for machine tools. The face to face discussions of common problems served a number of useful ends. The Americans (who had been complaining that of twenty-six larger vessels under their control they were constantly without eleven because repairs could not be done promptly) were in future restrained from making independent arrangements for repairs. Difficulties with machine tools were ironed out. But labour dilution and other issues remained intractable. On one major issue Beasley and Gordon failed to persuade the conference —a proposal to establish within the Department of Supply and Shipping a single central authority for repairs which, since shipbuilding and repair were inextricably related, could only have meant extinction of the Shipbuilding Board or its transfer from Munitions to Supply and Shipping. The compromise was the creation of Gordon's Executive Committee to prepare detailed reports for the Controller of Repairs on priorities in repair, as described earlier.

In the following months there does seem to have been some improvement. In December 1942 repairs to 260 vessels (other than naval vessels) totalling 971,098 tons were completed; by June 1943 the tonnage repaired had risen to 1,298,517. Tonnage repaired is a crude measure since it takes no account of the nature of damage, but for what it is worth the figure continued to increase until well into 1944, the decline thereafter reflecting the decline in damage as the war moved north from Australia.

But the result was achieved and maintained only at the continuing expense of new construction. Early in 1943 new building work ceased at Cockatoo Dock, Sydney, and by mid-1943 only one vessel of the "A" class programme was in commission and one was being fitted out. The original programme of twelve a year, adopted in 1941, was probably even then of doubtful realism, but the pressure of naval and merchant vessel repair (about equal in the two classes) had made completion of the thirteen vessels actually ordered something to be achieved if and when demands for repair allowed.

One attempt to cope with the shortage of materials, especially of sheet steel, was a modest programme for construction of timber ships. Wooden ship construction had been intermittently considered by the Department of Commerce during 1940 and 1941 and culminated in a Tariff Board report in June 1941. This report, written within the peacetime framework of

[7] For example, telegram from Gordon to Beasley, 10 Nov 1942; Makin to Beasley, 26 and 30 Nov; Beasley to Makin, 22 Oct and 16 Dec; Beasley to Gordon, 23 Jan 1943; Gordon to Smith, 27 Jan and reply 1 Feb.

[8] Held on 22 Oct 1942.

policy on shipbuilding bounties, was not encouraging, but appears to have been the stimulus for a campaign from Tasmania and to a lesser extent from Western Australia for construction of small wooden vessels as a wartime measure. Some of the supporters seem to have believed that wooden ships would ease the special burdens on those States, heavily dependent on sea transport, imposed by wartime restrictions. Others were apparently inspired by the feeling that little wartime production was directed to Tasmania and Western Australia, and this political pressure seems in the end to have been decisive.

Technical opinion was uniformly against the project. Suitable seasoned timber was not easily available, and what there was was in New South Wales rather than those two States. Wooden ships could not be used satisfactorily in tropical waters, while difficulties in the supply of timber and in provision of engines meant that only small ships (300 tons was accepted as the practical maximum) could be considered. Their principal use would be as lighters. In other use, and in particular carrying between Tasmania and the mainland, crew requirements in relation to carrying capacity would make them seriously inferior to steel ships.

Nevertheless Tasmanian persistence and the political motive for providing some wartime activity there and in Western Australia won the day and in October 1942 a successful proposal went to War Cabinet.[9] This was based on optimistic assumptions (deriving ultimately from Tasmanian proposals to the Tariff Board in 1940) that for a capital outlay of a mere £20,000 in Tasmania and £10,000 to £15,000 in Western Australia some thirty-two wooden vessels could be produced in two and a half years at a cost of £20,000 each.[1] The plan was for the Commonwealth to advance the capital costs, be responsible for engines and commit itself to pay £20,000 for each vessel, construction being handled by the State.

Some modest success was eventually achieved in Western Australia but the Tasmanian programme made heavy weather. The Shipping Control Board was increasingly sceptical of the usefulness of the vessels in commercial traffic (it eventually refused to accept the Western Australian ships on this ground) and only the interest of the Army justified the continuation of the programme. By March 1944, to look ahead, Tasmania had completed only three vessels and had twelve more in various stages of construction. Capital works—buildings, slipways, etc.—were inadequate for the full programme; construction costs were now estimated as of the order of £50,000. The Commonwealth took over the programme, at considerable cost, on the grounds that the only user interested in the vessels was the Army. (When war ended only thirteen of the planned thirty-two ships had been completed.)

A further demand on construction resources created by the nature of war in the Pacific was for small craft of various types. Initially the chief source of demand was the United States forces, who began to place

[9] War Cabinet Agendum 405/42, 5 Oct; War Cabinet Minute 2142.

[1] These figures were elaborated at conferences between Commonwealth and State representatives on 17 Sep 1942 (Tasmania) and 28 Sep 1942 (Western Australia).

substantial requisitions from November 1942. Up to mid-1943 these accounted for 5,672 craft out of a total of 6,644 ordered, although the Australian Army orders became important in the later part of 1943. In the event much less than half of the craft ordered up to mid-1943 were completed and handed over—2,416 of the 6,644 ordered.

It was partly for this reason that a Small Craft Directorate in the Department of Munitions in September 1943 took over responsibility for small craft from the Shipbuilding Board which had its hands full with building larger ships and, by this time, with the more urgent tasks of repair. Small craft were technically a separable operation. They did not require dry docks or large slipways, nor massive equipment. They were suitable for construction by small contractors.

When the Department of Supply and Shipping came into existence in October 1942 there were thus two distinct and unrelated shipbuilding programmes. First the Tasmania-Western Australian wooden ship programme was inspired by motives other than adding to coastal shipping. The vessels could supply some army and lighterage needs but would be of little use for coastal trade. Second the programme for "A" class cargo vessels of 9,000 tons had been adopted in the days before Pacific war when the need which dominated thinking was for vessels for overseas trade, and particularly for carrying exports. Achievement of that ambitious programme was well behind schedule, but it had also become clear that the ships were not of the type urgently needed in 1942.

They were in practice general cargo vessels, not equipped to carry refrigerated cargo and too slow to be used for chilled as opposed to frozen foodstuffs. Their size meant that they would be usable in only a few ports and, as other authorities learned with some alarm, the Shipping Control Board planned to use the two expected to be available in the first half of 1943 to carry iron ore and coal, for which the need was urgent but carriage of which could be expected to cause damage to ships designed for other purposes.

Re-examination of the programme was prompted along several directions. The new department informed itself of the background and problems of shipbuilding by a series of surveys which raised questions about the lack of any co-ordinating authority for the various interests concerned in the programme and urged that the Shipping Control Board review it in the light of future requirements.[2] Some of the shipping companies urged Makin in Munitions and Beasley in Supply and Shipping to plan a post-war shipbuilding industry. The most influential move, however, was from Essington Lewis[3] who urged that the whole range of naval and merchant shipbuilding and small craft construction be reviewed by a committee including a sufficient number of senior Ministers to ensure that its decisions would be virtually those of War Cabinet, its review to cover specifically the question of substituting 5,000 ton ships for some of the

[2] The surveys were carried out by C. V. Gray of the Dept of Supply and Shipping. He made two reports: 30 Dec 1942 and 9 Mar 1943.

[3] Letter to Curtin, 4 Mar 1943.

planned 9,000 ton "A" class vessels. Curtin took strong personal interest in this approach and the conference which assembled in May 1943 was a powerful one.[4] It rapidly arrived at a number of conclusions: that existing shipyard and engine manufacturing facilities should be accepted as adequate, and flexible enough to be adapted to vessels from 6,000 down to 1,000 tons; that the order of priority (within a general "Priority 1" category) should be naval repair, naval construction, merchant ship repair, merchant ship construction, small craft; that additional labour be obtained by diversion from Munitions, from Allied Works, and by pressing ahead with dilution.[5] A new and revised building programme should be developed promptly by a sub-committee.

That sub-committee[6] reported on 2nd July recommending:

(1) that ten only of the 9,000 ton "A" class vessels be built (in practice this had to be revised to the ordered thirteen for which it was found steel had already been fabricated).

(2) that as these were completed and yards freed for new work construction should begin of ten ships of 6,000 deadweight capacity, which it was estimated would take twenty months to complete; ten of 4,000 tons, capable of being produced slightly earlier; two of 2,000 tons, produced more quickly.

(3) These vessels should be designed for the specific needs of coastal trade, be built as a government project, and handed over to the Department of Supply and Shipping for operation.

(4) Repairs should continue to take precedence over new construction.

Endorsed by the ministers who had attended the main conference these proposals were approved by War Cabinet within a week.[7]

[4] Curtin, Chifley, Makin, Beasley, Dedman from the Cabinet; Lewis, Dir-Gen Munitions, Sir Guy Royle, Chief of Naval Staff, F. P. Kneeshaw, chmn, Shipbuilding Board, Rear-Adm P. E. McNeil, dep chmn, Shipbuilding Board, Eng Cdr W. G. C. Butcher, Controller of Ship Repairs, Gordon, Dir of Shipping and A. V. Smith, Secty Dept of Supply and Shipping.

[5] From the files of this period it is clear that greater union co-operation in dilution, overtime etc. was hoped for if there were a clear long-term construction plan which might be the foundation of a post-war shipbuilding development.

[6] Lewis, McNeil, Gordon, Kneeshaw.

[7] War Cabinet Agendum 305/1943; War Cabinet Minute 2946, 9 Jul 1943.

CHAPTER 10

LAND TRANSPORT

THE Department of Transport had been formally established in June 1941, but discussions about organisation, in particular of co-ordinating Commonwealth and State authorities, were going on when war in the Pacific produced even greater problems.[1] The Defence Department's transport organisation had gone to the new Department.

The regulations of 3rd December 1941 had provided for control of road and rail transport with a Director of Transport and a Director of Road Transport and a Director of Rail Transport; there was to be a War Railways Committee.[2] These administrative steps were carried much further in regulations of March 1942.[3] A Land Transport Board was created to exercise control over railway and road services; the use of vehicles and their care, maintenance and location; the use of roads; and the carriage of passengers and goods by land generally. Two major committees were responsible for detailed investigation and policy formulation —the War Railways Committee and the War Road Transport Committee. The executive powers of the Board were vested in a Director-General of Land Transport, Sir Harold Clapp. This basic administrative structure was to exist largely unchanged for the rest of the war, with minor variations in 1944 designed to reorientate the Department to post-war functions.

The War Railways Committee was substantially the same as that in the December regulations—the Director-General of Land Transport, the Director of Rail Transport, D. J. Howse,[4] as head of the Rail Directorate of the department, and the Commissioners of the different rail systems (thus ensuring, among other things, State representation), an Army representative and from time to time the Coal Commissioner, representatives of the Australian Railways Union, and others invited for discussions to which they could bring specialised knowledge. This structure was well adapted for the collection of information and policy formulation, and for its subsequent implementation since that became primarily the function of the several railway commissioners. The problems of railway transport remained immense and complex, and the main burden of the greatly increased demand for other than purely local transport necessarily fell on the railways. But this administrative structure was tailor-made for the situation. In the short run major expansion of railway capacity was ruled out for technical reasons—building a line or large quantities of rolling stock takes time—and the essential problems were those of increasing the

[1] Butlin, *War Economy 1939-1942*, pp. 424-5; and generally for developments to the end of 1941 in most of the matters discussed in the present chapter.

[2] Statutory Rules 1941, Nos. 278 and 279.

[3] Statutory Rules 1942, No. 149, 25 Mar.

[4] D. J. Howse, Traffic Inspector NSW Rlys 1924; Special Traffic Officer to Commr for Rlys 1930; Dir of Cwlth Rail Transport 1941-46; Chief Traffic Mgr NSW Rlys 1948-58. B. Winkfield, Berks, U.K., 8 Jun 1893. Died 8 Apr 1968.

carrying capacity of existing lines and rolling stock, and restricting less essential traffic.

Road traffic control was far more complex and there was no such simple solution for administrative structure. In each State there existed pre-war road transport authorities whose function had included especially licensing of vehicles and drivers, and control (restriction) of long-distance road transport to protect State railways from competition. Adapted from an Emergency Road Committee set up in December, the War Road Transport Committee comprised the Director-General of the Department of Transport, the Director of Road Transport;[5] State representatives (called, in this capacity, directors of Emergency Road Transport) who were in Queensland the Commissioner for Main Roads, in New South Wales the Commissioner for Road Transport, in Victoria the Chairman of the Transport Registration Board, in South Australia, the Chairman of the Liquid Fuel Control Board, in Western Australia the Chairman of the Transport Board and in Tasmania the Commissioner for Transport. There were Army representatives on the Committee and from time to time the Controller of Automotive Spare Parts and the Controller of Rubber. Within the basically Federal structure which was the obvious one, there had to be a great amount of delegation to "local advisory bodies", because more than 250,000 individually operated commercial vehicles as well as thousands of private cars were involved. There was great variation in the bodies chosen for this function, although in New South Wales and Victoria main reliance was on municipal or shire councils.

The form and diversity of these arrangements largely derived from the hurried planning, immediately after the Japanese struck in Malaya, for evacuation from coastal towns and districts if raids or invasion should occur. In Queensland, for example, a register of some 2,000 cars, buses and trucks was made up, but it was soon realised that their total carrying capacity was only 18,000 persons, and any substantial movement of population from the coast would have to be by rail. Later, in early 1942, the Department of Transport was seeking lists of vehicles from local area authorities which would be required by air raid and other emergency organisations. It was apparent that the diversity of road transport and the multiplicity of hands in which control of vehicles lay demanded a highly decentralised system. Local advisory bodies were set up in each State; they had existed in Victoria in embryo since 1939, used since then primarily for such control purposes as liquid fuel priorities. There municipal councils had provided the basis for planning, and by the end of 1942 an advisory committee on road transport existed in every local government area, 198 in all. New South Wales also operated through local councils, and by mid-1942 had 170 committees. As the threat of invasion in Queensland appeared to grow in 1942, 160 transport officers were nominated for emergency control of land transport.

Plans for evacuation remained embryonic, however, simply because it

[5] F. P. Mountjoy.

would have been impossible to achieve on any scale. Large numbers of people could not have been evacuated westwards in Queensland, nor could they have been housed or fed if transport had been available. But the organisational arrangements developed under the threat of invasion were the obvious ones for local administration of controls for other transport purposes. Just as the 1942 search for alternative sources of rubber passed into the more relevant development of controls and restrictions on rubber usage, so planning for evacuation passed into a network of restrictions and rationing.[6]

MILITARY DEMANDS ON RAIL SYSTEMS

The railways were ill-adapted to the demands of the Pacific War. The most obvious defect was the differences in gauges which necessitated transhipment of passengers and freight between the systems.[7] This was intensified because State jealousies and the desire to contain trade within State borders had led to railway systems which, most obviously in Victoria and New South Wales, radiated from capital cities, with minimal border crossings.[8] The Victorian, South Australian, New South Wales and Queensland systems were interlinked only at two points on each of the three borders involved. The Pacific war demanded vast movements of troops and supplies north-south, especially war supplies from the Adelaide, Melbourne and Sydney areas, and diversion of trains to reduce pressure on the direct capital-city connections was severely limited both by lack of border links and by the direction of other lines built to constrain movement within State boundaries or at least not to facilitate interstate movement. Many vital links were single track—the transcontinental line linking Perth with the east, the sole north-south line along the coast in Queensland, the key section between Cootamundra and Junee in New South Wales, a bottleneck for all movement between New South Wales and Victoria. Tracks were often of light construction, or with culverts and bridges not designed for heavy traffic or high speeds. Rolling stock was inadequate for war demands not only in quantity but in design—the great majority of goods trucks were lightly constructed four-wheel vehicles. Signalling systems were mainly manual, a factor in restricting train speeds, it was estimated, to an average (outside suburban areas) of 15 miles per hour on 3 foot 6 inch systems and 18 miles per hour on 4 foot 8½ inch systems.

On this railways system, struggling with its own deficiencies and shortages of manpower and coal, were thrust heavy and escalating demands. There were greatly increased troop movements, especially northward into Queensland, but also westward to Western Australia, and to a lesser extent north from Adelaide to the Northern Territory, although the railway

[6] For convenience, on some topics this narrative glances ahead to the later years of the war.

[7] At the border between Victoria and New South Wales, in Adelaide or Port Pirie in South Australia, and either at the border or in Brisbane for movement between New South Wales and Queensland.

[8] Queensland was formally an exception, with lines linked to other Queensland points, but as east-west routes they had limited relevance for war traffic which was primarily north-south.

terminated at Alice Springs. Munitions and war supplies and, as well, normal civilian freight followed the same routes. Increasingly freight was diverted from coastal shipping, not only because ships were progressively requisitioned but because Japanese submarines intermittently operated in Queensland waters, and to a lesser extent farther south.

Initial assessment of the problems served to define those which were to be continuing ones. The South Australian State railways and the Commonwealth line from Port Pirie to Alice Springs had urgent need of locomotives and rolling stock because the route north through central Australia was being used for urgent mass movement of troops and equipment. The Army virtually took over the line for which little civilian use remained, and a modest amount of 3 foot 6 inch rolling stock was moved from Queensland and South Australia. The 5 foot 3 inch line from Victoria to link with the Commonwealth line at Port Pirie received additional rolling stock from Victoria. Both lines needed urgent improvement in coal and water facilities, additional crossing loops (they were single-track lines), telephone lines to speed service and so on. South Australia needed more locomotives for lines leading from munition factories, better wharf facilities at Port Pirie.

Transhipment facilities at break-of-gauge points were vital—Albury and Tocumwal on the New South Wales-Victoria border; Serviceton on the Victoria-South Australia border; Broken Hill, which provided an alternative route between New South Wales and South Australia; at Brisbane and Wallangarra for Queensland traffic. Other matters which needed immediate attention were handling with inadequate special waggons coal and iron ore diverted from coastal shipping, additional locomotive service depots, crossing loops on single track lines, coal supplies and the like. There was further redistribution of rolling stock; for example the Commonwealth line Adelaide to Darwin borrowed Western Australian locomotives. There were continuing problems of financial accounting revolving round the principles on which State railways were to charge freights and fares for Commonwealth wartime traffic.

The difference in gauges proved to be the most serious lasting problem, and it came into sharp focus at transhipment points. In South Australia a central point was Port Pirie where 3 foot 6 inch lines from Alice Springs and Broken Hill as well as from the main State system joined the standard (4 foot 8½ inch) gauge lines from Western Australia and the 5 foot 3 inch line from Victoria. Goods going west far outweighed those coming east and, with limited rolling stock on the transcontinental line, accumulated at Port Pirie awaiting the return of trains from the west. Meanwhile the trucks in which they had arrived from the east were immobilised. Efforts were made to hold up shipment of civilian goods at the point of despatch in Victoria or New South Wales until trucks would be available but throughout 1942 the problem continued; in September 1942 the line west was closed to all civilian traffic so that delayed military traffic could have exclusive use, just as the Central Australian line had become an Army monopoly. A second South Australian bottleneck was at Serviceton,

where facilities adequate in peacetime were overstrained, and where a special problem arising from differences in gradient on the two sides of the border was that trains on each side could include, at a maximum, unequal numbers of trucks.

Traffic transhipped at Brisbane to go north into Queensland was a specially urgent problem, and in due course extensive improvements were undertaken though not completed in time to be of wartime value. Here the problem was less that of transhipment than the fact that the long haul north from Brisbane meant that frequently empty waggons did not return in time to avoid massive build up of goods awaiting transhipment. As a result at times idle loaded trains were held at stations as far as 100 miles south of Brisbane, or even held up at Albury because waggons required were still standing waiting to be unloaded at Brisbane.

Manpower to tranship freight was always a problem. Aliens were assigned to the work, but goods still accumulated. In March 1942 the Army agreed to raise labour companies for the work; despite an Army limit imposed on this commitment in 1943, as late as 1944 some 400 Army personnel were engaged at break-of-gauge stations transferring not only Army but civilian freight. Although by April 1942 the Commonwealth, South Australian and Tasmanian railways had obtained labour protection it was not until early 1943 that the Manpower Directorate was prepared to declare all railway systems protected undertakings.

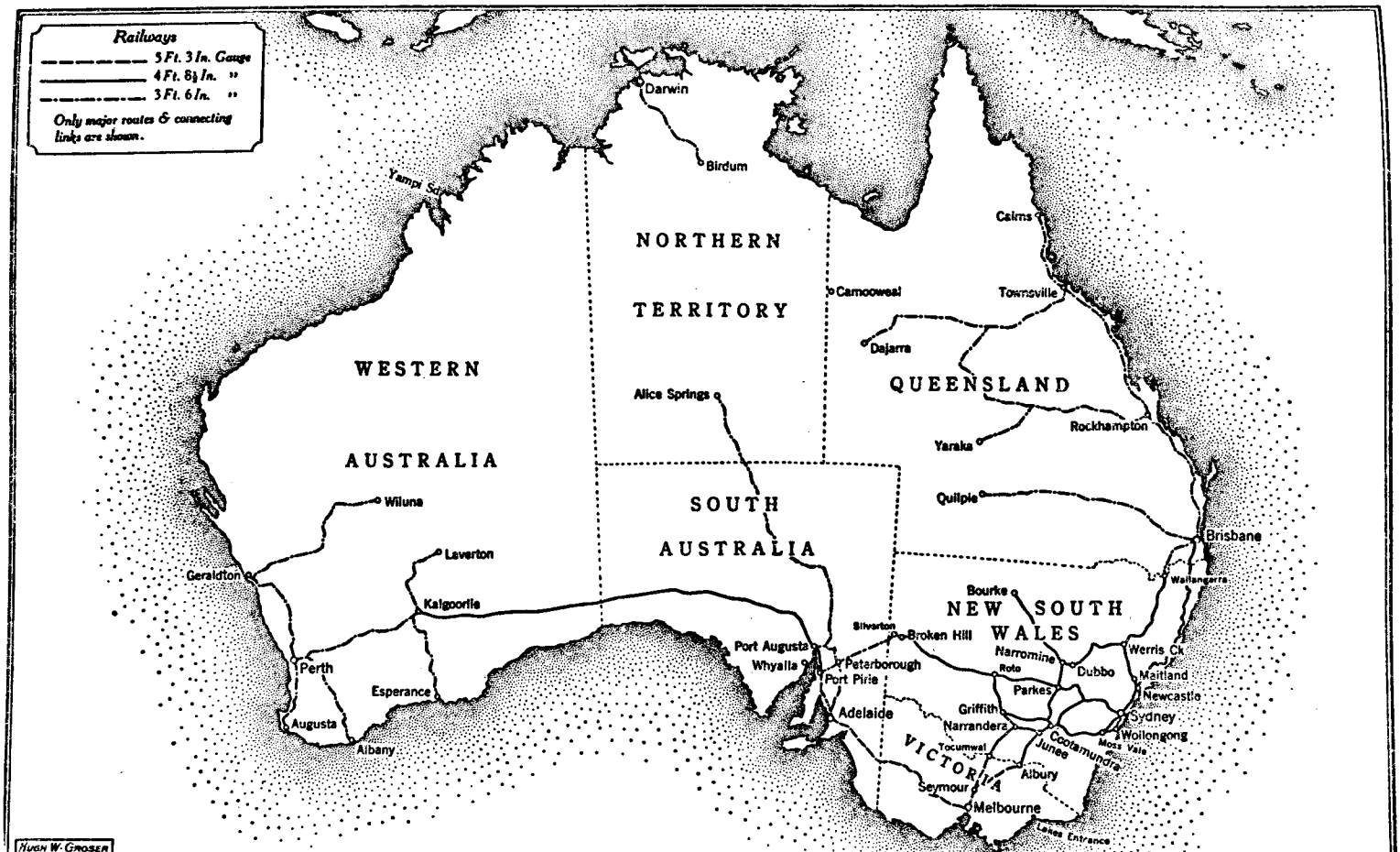
In June 1942 in an effort to assist the movement of war supplies from the south, movement of freight through Albury was restricted to goods shipped for the Departments of Defence, Munitions, and Aircraft Production and other goods classified as of first priority; civilian goods and foodstuffs such as potatoes and onions even if for the Services were routed through Tocumwal. A further move, linked with War Organisation of Industry rationalisation programmes was the prohibition of cross traffic in civilian goods—that is the shipment of similar competing goods in opposite directions across borders.

Nonetheless during 1942-43 the strain on the Queensland border crossings and on Queensland railways was so severe that the Army (which had effective control of transport in northern Queensland for operational reasons) proposed in the middle of 1943 further reduction of civilian rail traffic into Queensland, already severely restricted since August 1942. This led in July 1943 to a confrontation between the Minister for Transport, G. Lawson,[9] and the Queensland Railways Commissioner,[1] on the one hand, and Forde, Minister for the Army on the other. In essence their case was that ninety-five per cent of all rail traffic north of Brisbane was for the Army and the Allied Works Council; the remaining civilian traffic, only five per cent, represented only attenuated supplies of items such as food and coal. Moreover, by pre-emptive purchasing the Army and the Americans in north Queensland had been responsible for

[9] Hon. G. Lawson. MHR, 1931-61; Min for Transport and Min asstg the Postmaster-Genl 1941-43. B. 1881. Died 26 Nov 1966.

[1] P. R. T. Wills.

AUSTRALIAN RAILWAYS



serious shortages of locally produced food there. It was argued that the Army was itself responsible for saturating the single track line from Brisbane to Maryborough by failing to use shipping available for troop transport. The faults were not all those of the Army. For example shipments from the United States were sent to inappropriate ports; tinplate required in Melbourne was sent on ships bound for Townsville; and American army supplies required in north Queensland arrived in Melbourne.

The dispute was only settled by a direction from the Prime Minister in September 1943 that a reasonable quota of space had to be reserved for goods sponsored by the Civilian Requirements Board which was charged with ensuring that only essential goods in essential quantities were approved. Nevertheless, continuing trouble was inherent in the border situation and was not fully resolved even by the establishment early in 1944 of a special branch of the Transport Department to deal with all Commonwealth government shipments by rail. (Apart from its primary activity in expediting movement of goods, it found in the transhipment of goods at Albury and Tocumwal, instances of disregard of safety, such as explosives and inflammable goods put into damaged containers or "protected" by loose straw packing, practices which it never fully eliminated.)

The Queensland episode was only one illustration of the problems of relations between the Army and the Land Transport Board. After the outbreak of war in the Pacific the Army became the major user of railways, and pressure for greater Army control recurred more than once, even though the War Cabinet had already defined the line of demarcation: when active Service conditions developed in any part of Australia the Army should assume control over all public facilities; otherwise the Army should not exercise control of railways or other transport anywhere in Australia.[2] Even before this decision was given the Army had taken control of the road in the Northern Territory from Alice Springs to Larrimah and of the railway thence to Darwin. At the War Railways Committee meeting in May 1942 and afterwards in approaches to the Director-General of Land Transport the Army sought "clarification" of the roles of the different departments to prevent overlapping, while General Blamey as Commander-in-Chief more directly asked in June that his demands for rail transport be given first, and where necessary (in Army judgment) absolute and exclusive priority. Clapp stated that the Army always had absolute priority for transport of personnel and equipment, and cited the case of temporary closing of the transcontinental railway to all civilian traffic. He challenged the capacity of the Army to balance its own needs against those of civilians. The outcome was an agreement, embodied in a War Cabinet decision, that the Army should have absolute preference in the transport of personnel and equipment but should not otherwise control rail transport outside operational areas.[3] The Army, however, returned to the attack on the occasion in December 1942 when areas in Western

[2] War Cabinet Minute 1982.
[3] War Cabinet Minute 2363.

Australia were declared to be military areas, to be entered only with an Army permit. The Director-General of Land Transport was invited to agree that the control exercised in an emergency zone could be extended "to such an extent as the Commander-in-Chief thinks necessary . . . any act or thing requiring to be done elsewhere within the territory thereof so far as concerns the operation, maintenance or control of any public utility the continued operation of which is essential to that part or area", irrespective of any existing legislation.

Clapp retorted to this bland request for an unspecified extension of army control by referring to the established demarcation, and by challenging the Army to declare a whole State an operational area, indicating his belief that the Army was not equipped to handle all transport including civilian, except within genuine operational areas. The Army wanted power, not responsibility, and there the matter rested.

A constant source of friction between the Service departments, Munitions, Aircraft Production and the railways was responsibility for damage and pilfering. Following the introduction of special freight rates for Commonwealth departments the Railways Commissioners decided in July 1943 no longer to accept any risk on such goods. Pilfering was said to be causing large losses, and there were allegations of careless handling by railway staff. The issue of "not counted" receipts—an extension of the no-liability rule—later in 1943 meant that the railway staff did not check departmental consignments. In October 1943 the New South Wales Railways went further and withdrew checkers from Alexandria, the chief Sydney loading point for defence traffic. The Army protested, pointing out that the railways would not accept any army checks that might be made, but the railway reply was that checking must be dropped at all the principal loading points unless the Services would release experienced railway staff—calculated at 131—needed for this duty. The dispute continued to simmer.

RESTRICTIONS ON PASSENGERS AND FREIGHT

The growth in freight and passenger traffic brought with it, especially in 1942, a series of restrictions aimed at giving priority to the more essential. These restrictions were primarily on interstate movement; for intrastate traffic the cruder instrument of reduced frequency of service usually sufficed. A major reason was that break-of-gauge problems produced one administrative advantage: goods had to be transhipped, passengers had to change trains, and a more or less automatic check was involved and, at that, at a few points only. Moreover the worst pressure was on the inadequate main interstate routes, so that it was sensible to concentrate control there. This approach, too, provided a useful demarcation line setting limits to an administrative task which would snowball unmanageably if the same detailed control were applied on intrastate traffic.

From 1st July 1942 interstate express train services were limited to two trains each way daily on the Sydney-Brisbane and Sydney-Melbourne routes; one each way daily on the Melbourne-Adelaide route; and one each

way linking Western Australia with the east. On the same day a system of permits for interstate travel became operative, permits issued on a priority system so that a person with a lower priority might be displaced from a particular train by someone with a higher priority.[4] Inevitably a good deal of evasion developed, mainly by "border-hopping" (that is travel to a station on or near the border not subject to checking, then making one's way to a similar station on the other State system beyond the control station), but also by illicit transfer of permits. In November the number of stations classified as "border" stations was increased to include all those convenient for this type of evasion, and random checking of personal identity cards[5] as well as permits was undertaken to restrict transfer of permits. "Border-hopping" was never completely eliminated but was reduced to a scale at which it could largely be ignored. Perhaps too there was morale advantage in the general belief that while evasion was sufficiently difficult to ensure that evaders were not regarded as gaining unfair advantage, the really determined could always get through, an activity which was on that scale harmless. This system of control over interstate travel did not apply, of course, to organised travel by groups of service personnel, for which special trains were used. Such movements were large and could at times be a major strain on rail services. Thus the disembarkation of the 9th Division on its return from the Middle East in February 1943 required thirty-one special trains to depart from Darling Harbour, a Sydney port terminal with limited train-holding facilities. The whole operation was achieved in twenty-four hours.

Following restriction on passenger movement came restriction on interstate movement of freight. A Department of War Organisation of Industry order of 26th October 1942 in effect listed goods which were regarded as of low priority and for interstate traffic in which a permit should be required. Such items as clothes hoists, jewellery, perfume, refrigerators, carpet sweepers, cars, wine and bird cages were included. While this order substantially reduced movement of goods across borders, it inevitably created much complaint, not always easy to answer, while production and intrastate transport of the goods concerned was permitted. Thus Richmond Brewery, in Melbourne, claimed it lost sixty per cent of its trade, which was extensively in New South Wales, particularly in southern districts, not offset by increased business in Victoria since the amount of New South Wales beer excluded was far less; it could argue plausibly that increased transport of Sydney beer over longer distances more than offset the reduction in carriage of its beer over the shorter haul from Melbourne.

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[4] Restriction of Interstate Passenger Transport Order No. 1. The priority order was:
1. Defence personnel in uniform travelling on duty.
2. Persons on business of national importance associated with active defence requirements (for example, members of Parliament, departmental heads).
3. Persons on business of national importance indirectly associated with defence requirements.
4. Persons on essential civilian business indirectly associated with defence requirements.
5. Defence personnel on home leave; persons travelling for urgent and adequate private business reasons; persons having good reason (for example, death of near relative).
6. Persons returning home, with adequate reason for their travel.
7. Persons travelling in cases where special hardship would result by prohibition.
8. Defence personnel travelling on leave and paying own fare.

[5] These had been introduced in March 1942 under Manpower Regulations.

There was unintended difficulty also in that insufficient manufactured goods reached Queensland especially when Service personnel stationed in the north drew heavily on local supplies.

When protest brought awareness, such difficulties could be eased by greater flexibility in administration, and minor variations in detail were numerous. But this general system of control of both passenger and freight movement was maintained in its general form and in severity until the closing months of the war. By mid-1944 the pressure of defence traffic, both for personnel and for freight, had fallen substantially, partly because the active war had moved north and ships were more vital than trains, but also because the armed services were being reduced and war production tapered off. (The cynical could also note that when sleeping-car accommodation was eliminated there was a marked falling off in applications for permits.) For some time, however, acute shortages of coal prevented relaxation of controls.

In the early months of 1945 the decline of defence traffic was so marked that trains were being operated incompletely occupied, and it was clear that substantially more people and more freight could be carried without any increased engine or train mileage and without increasing coal consumption. The States, concerned about railway revenue, pressed for relaxation and had some success. In April 1945 travel priorities were reduced to five, and non-priority travel was permitted with the proviso that the ticket could not be bought more than a day ahead. It was also accepted that most of the freight now offering could be handled by the individual railway systems without the legal authority conferred by Commonwealth orders and regulations. More effective was a series of High Court decisions which found key restrictions to be in conflict with section 92 of the Constitution.[6]

Accordingly the Department of Transport scrutinised its various orders and directions and Howse reported that in the light of the Court decision, many would have small chance of survival if challenged, and he recommended revocation. Among them were the April 1942 prohibition on transport of breakfast cereals from New South Wales to Victoria, South Australia and Western Australia; one issued as late as April 1945 banning transport of barley, maize, wheat and sorghum from Queensland; controls over transport of freight in lots exceeding one hundredweight (January 1943) and others relating to transport of flowers, gas producers, livestock, meat, vegetables and shale oil. A large number of these orders was revoked during July, August and September 1945.

Such repeal was not without its difficulties because other controls sometimes depended upon transport restriction. Thus with a general shortage of meat it was feared that if live animals could be carried inter-

[6] One Dulcie Johnson challenged the validity of the permit system in February 1945 and on appeal to the High Court the Commonwealth lost. A further judgment, Gratwick *v.* Johnson, reaffirmed that section 92 could override wartime transport controls even though the war had not yet ended. The Court was clearly of the opinion that, in the circumstances of 1945, the direct connection between the prosecution of the war and rail restrictions had shrunk to the point where section 92 should prevail increasingly.

state there would be a great demand for livestock for restocking and animals would be sent interstate in pursuit of the best price. The transport restrictions, too, had been used to hold livestock in the localities best placed to supply exports of meat to Britain and the needs of the Services. The Meat Controller in the Department of Commerce argued that transport restrictions should be maintained so long as meat was rationed. It was decided nevertheless that this and other transport restrictions should go, leaving less formal individual arrangements between the Department of Transport and other authorities to cope with difficulties which might emerge.

RAILWAY EQUIPMENT AND CONSTRUCTION

Each of the State railways continued in war its normal programme for construction of locomotives, freight trucks etc., as well as obligations to war needs. Thus flat-top waggons were converted to troop transport, and for the carriage of army vehicles in South Australia in 1942; other States modified freight trucks to carry heavy defence equipment and munitions; passenger cars were adapted to give sleeping accommodation to troops travelling long distances. These programmes, together with non-railway work in their workshops (munitions components and the like) were by 1942 straining capacity, and the Government welcomed the cancellation of an order to construct 84 locomotives and 835 trucks for Iran.[7] Export orders for railway equipment were not entertained again until 1944 when Indian inquiries for locomotives initiated a dispute still unresolved when war ended. Clyde Engineering Company Limited in Sydney was anxious for the contract, because its munitions orders had fallen away. The Government opposed this, taking the line that all construction capacity would be required locally for the contemplated programme of standardising railway gauges. State Railways joined the opposition; Clyde Engineering plausibly alleged that State workshops had expanded equipment and capacity for which they wished to have preference in post-war orders. Truth in the matter is elusive; what it illustrates is the ambivalent attitude of both public authorities and private enterprise after the crisis years of 1942 and 1943 when "after the war" was a concept increasingly before them.

One particular wartime construction programme is deserving of some detail because it illustrated problems which manifested themselves in various forms with a variety of wartime projects. This was the Garratt locomotive programme. As with tanks and torpedoes the project was a long-term one, and in the event the need had passed, or greatly diminished by the time construction was completed. Design changes to meet special local conditions or the exigencies of production under war conditions, or made in the belief that they were improvements, complicated production and were accompanied by deficiencies about which the experts wrangled. In the case of the locomotives there were additional complications because

[7] War Cabinet Minute 1662, 5 Jan 1942.

policy decisions made by the Commonwealth concerned locomotives which would be used (and were to be eventually paid for) by State railway administrations, which would be committed, long after war ended, to use an engine they had not chosen.

The primary shortage of locomotives, as it was defined early in 1942, was for heavy haulage on 3 foot 6 inch gauge lines, especially the Commonwealth line in central Australia and lines in Queensland, but also to a lesser extent in Western Australia and Tasmania. Delivery of 3 foot 6 inch gauge equipment arranged under Lend-Lease appeared to be receding into an undefined future, while the increased demands, especially in the Centre and in Queensland, were heavy and urgent. On the advice of the Western Australian Commissioner[8] the Commonwealth selected the Garratt locomotive, twice as powerful as the "C17" used in Queensland, as the one to be built. Completed engines subsequently allocated to State railways would be paid for by them. Unfortunately there was, the States claimed, inadequate consultation. How far this was true, how far the Commonwealth felt justified in imposing a choice between divergent experts in order to secure a decision in what were felt to be desperate conditions, how far personal antipathies, or resentment that a West Australian preference should override the views of other States, entered into the dispute, is hard to determine and the attempt to do so an unprofitable exercise. The fact is that the programme was adopted in an atmosphere of resentment, and implemented with increasing acrimony. In addition to the locomotives, to handle army equipment including tanks the 3 foot 6 inch gauge lines needed urgently larger and stronger trucks than the four-wheel small trucks which predominated in their rolling stock. The plan contemplated trucks 40 feet long, capable of carrying a tank of 26 tons, but with the truck itself limited to 10 tons so that axle loads should not exceed those permissible on lightly constructed Queensland railways (where bridges and culverts frequently had simple timber support). The August 1942 decision[9] approved construction of 30 Garratt engines at an estimated cost of £510,000 and 1,000 flat-topped waggons for £400,000. Within three months, with construction hardly begun, the order was increased by 35 locomotives in view of the acute difficulties being experienced because of lack of 3 foot 6 inch gauge locomotives; the total cost of the engine and waggon programme was then set at £1,505,000. By then it was apparent that the war had reached a crucial phase, and optimist and pessimist alike could have argued from different assumptions that wartime use for so many, by the time they were delivered, was unlikely. Other motives however lay behind a declaration from Queensland that until the locomotives had been tested in service they would not accept more than the ten to which they had given grudging acquiescence. The 65 to be constructed were therefore reallocated:

[8] J. A. Ellis.
[9] War Cabinet Minute 2313, 12 Aug 1942.

Western Australia	10
Tasmania	5
Silverton Tramways[1]	2
Commonwealth Railways	30
Queensland	10
Unallotted	8

The first engine went into service (in Queensland) in September 1943, by which time the cost of engines and waggons had risen to £1,664,000 partly because of increased cost of materials but also because original estimates had made inadequate provision for spares. Almost immediately there was a disposal problem. In November reassessment of the strategic situation accepted the obvious: there was no longer any need to provide for eight military trains daily on the central Australian line and of the 30 Garratts allocated to the Commonwealth railways none was needed. General MacArthur's complaints of delays in army transport in Queensland suggested an answer, and it was proposed that 25 more engines go to Queensland. In February 1944 Silverton Tramway rejected the two offered to it, no longer needing additional engines. A new allocation drawn up was:

Western Australia	10
Tasmania	6
Queensland	35
Unallotted	14

Efforts to sell 14 overseas were fruitless. Proposals to curtail the programme were rejected by the Department of Munitions which argued, unconvincingly, that the programme was so far advanced that completion was more economic than cancellation. Since by February 1945 only 34 engines had been delivered, 26 were in varying stages of construction, and 5 had yet to be begun; and estimated cost had risen approximately 50 per cent over that at the time Munitions made its claim, the basis for rejection was questionable.

Meanwhile, almost as soon as the Garratts went into service in Queensland a running battle commenced between that State's Railway Commissioner and the Department of Transport. The Garratt engine was originally chosen because it was an available narrow gauge design with adequate power. But the design had to be altered so that axle loads would be reduced to be safe on Queensland lines. Complaints from Queensland authorities were constant, specific illustrations being: bogie frames prone to crack because weight-reduction had made them too weak; regulator handle intolerably close to boiler; water tank inadequately attached. Moreover it was claimed—the trade unions were emphatic—that redesign had made the work of firing the engine so heavy that 100 miles should be the limit for one man. Engine crews found operation so unwelcome that agreement with unions provided for men to do return trips on a different type of engine. In the conditions of the day the extra labour required could only be made available by additional overtime and unions were already protesting about its excess.

[1] Private railway link connecting New South Wales 4 foot 8½ inch gauge railway at Broken Hill with South Australian 3 foot 6 inch gauge.

Design faults and hasty construction, it was said, meant that engines spent an inordinate amount of time under repair; the Commissioner claimed in June 1944 that those so far delivered were in workshops 44 per cent of the time, although he did not produce specific detail. In May the Queensland Premier declined to accept any engines beyond the ten already in service until faults had been corrected and they had proved satisfactory in service, but by June, with assurances about correction of faults and ultimate financial adjustments, was prepared to be persuaded to accept delivery as engines were completed. But dispute and argument continued to simmer at a lower level.

Somewhat better fortune attended the waggon construction programme. The first were completed in March 1943 and by June eighty-nine were in service. Although constructed for the purpose of carrying mechanical transport and defence equipment, they were initially used for the carriage of bagged wheat, each load on the new 40-foot waggons being twenty-seven tons thus releasing three smaller waggons for alternative use. Complaints were not lacking. Queensland claimed that a test load of 28.6 tons (the weight of an M3 tank) placed centrally left a permanent downward deflection which was unsafe. However, the waggons stayed in service carrying civilian freight and defence gear. The original plan proposed 500 waggons for Commonwealth railways and 500 for Queensland. But again illustrating the waste of war and the unpredictability of the need for equipment far ahead, the Commonwealth need fell sharply as deliveries progressed and by February 1945 Commonwealth needs for the Central Australian line were very fully met with 373 waggons. Queensland had received 541, of which the original 500 were reserved for Army use and the remainder were adapted to carry sheep and for use as brake vans. Tasmania received 70 waggons. (At that date 16 remained to be completed.)

LABOUR

Loss of employees by call-up and otherwise, and the sharply increased demands on the railways after Japan became an enemy provoked very early pressure for having the entire railways system declared a protected undertaking. However in March 1942 Wurth, the Director-General of Manpower, refused to be convinced that the evidence of undue loss of labour was sufficient to justify this step, referring the question to his deputies in the States to consider labour protection on a local basis. The transport crisis in South Australia, affecting both that State's system and the Commonwealth lines north and west from Port Pirie, had already produced major border congestion and, temporarily, the closing of the Transcontinental line to all civilian traffic. More than labour shortage was involved, but it was a central source of difficulty; in April Commonwealth and South Australian, and also Tasmanian railways were declared protected undertakings. Nonetheless in June the Manpower Directorate sought ninety-six men from South Australian Railways in exchange for substitute

workers, although it did not persist. Protection too did not prevent loss of men who drifted to better paid jobs.

By August the whole railway labour question was so acute that a high-level conference of Manpower and railway authorities reviewed the situation. As an immediate emergency measure, 300 men were transferred from State railways to the Commonwealth, on a volunteer basis, but the Manpower Directorate was still reluctant to extend labour protection to all railways. A second conference in December had before it quantitative evidence of the burden the railways were carrying. As a simple measure, the change in gross mileage between 30th June 1939 and 30th June 1942 was:

Commonwealth Railways	+ 140
Queensland	+ 28
New South Wales	+ 27
Victoria	+ 16½
South Australia	+ 21
Western Australia	— 10

In the months since June loads had risen further especially between June and September; on the other hand the gross loss of men employed on railways during 1942 had been 8,341. Agreement was reached for general labour protection of all railways from March 1943. To offset labour losses women were being employed; prisoners of war were used on track maintenance on Commonwealth railways; holidays were deferred and overtime increased. Pressures were irregularly distributed: in 1942 the States in greatest difficulty were South Australia, because of the sheer increase in business, and Victoria, because of border bottlenecks at Albury and Tocumwal; moreover, overtime tended to be heaviest for the most skilled operations staff. The third Railways-Manpower conference in September 1943 had before it Clapp's estimate that the minimum need for additional men was 1,007 (revised in October to 1,024) some of which it was hoped to obtain from the cutback in Munitions and the Services planned for late 1943.

During the first six months of 1943 the railways had gained 8,629, but had lost 6,866, including over 1,000 to the Services and 500 to other government departments; the net gain was only 1,763. Since the outbreak of war to June 1943 gross ton mileage had increased by 45 per cent; the quarterly increase for the third quarter of 1943 had been 15 per cent. On the other hand operational staff of all grades had been 96,602 at the outbreak of war, and despite the 45 per cent increase in ton mileage, had grown only to 106,861 by June 1943. A great many of the staff employed during that period were less fit, less skilled and less experienced; 4,769 positions were filled by women doing work previously done by men.

Of the 1,000 men requested, 400 were for New South Wales, 200 for Darling Harbour terminal; 100 for the duplication of the single-track Junee to Cootamundra line, a project to eliminate a bottleneck, still incomplete after two years; 256 were for Victoria, and for Queensland 80 guards and 35 fettlers were specified. The War Commitments Com-

mittee approved virtually the whole request, although South Australia was denied any increase. With pressure there now less the view was that its problems could be met by increased overtime. Approval to hunt and finding the men were however very different things. Queensland in particular was in trouble. Guards were still short, and temporary transfers from other States were sought for June to September for the movement of the cane harvest and of cattle to market. Unions were protesting about excessive overtime, and overlong deferment of recreation leave. There was a shortage of engineers (met by temporary promotions and use of semi-skilled workers) and of men for locomotive repair at Ipswich, for which temporary transfers from New South Wales and Victoria were arranged. New recruits sent by the Manpower Directorate were, it was claimed, physically unfit; often this was the reason for their discharge from the Services.

By October 1944 labour difficulties were still acute and Manpower approved an additional 2,000 men and 400 women for transport services collectively (rail, bus, tram, ship and road transport). Queensland railways were still the thorniest problem. Some 200 men were sought for track maintenance on the North Coast line alone and there were urgent needs for train operating staff in view of anticipated heavy increase in troop movements. Over this last problem the Ministers for Transport and for Labour and National Service submitted their differences to the Prime Minister, who directed that Manpower should find the men for Queensland track maintenance as soon as possible. To the end of the war, however, men required for the railways remained elusive and the systems had to struggle on, with the unwelcome relief during 1944 and 1945 of reductions in operations forced by coal shortages.

COAL FOR THE RAILWAYS

One reason given for the restrictions on interstate movement of passengers and freight in 1942 was declining stocks of coal. But it was not until September 1943 that the situation became critical, with reserves estimated at less than three weeks consumption. State Premiers were told that coal consumption must be reduced by 40,000 tons a week and that 12,500 of this reduction must be borne by the railways.

Railway Coal Usage
(tons per week)

	Current Usage	Reduction	% Fall
New South Wales	30,000	8,000	26
Victoria	9,000	2,400	26
South Australia	6,000	1,600	26
Western Australia	1,000	250	25
Tasmania	1,000	250	25

Plans were already prepared for cuts in services to save coal, because temporary cessation of shipment of coal by sea to Victoria, South Australia and Commonwealth Railways had already forced railways to use up reserves which were not being replenished. For example in Victoria

various sidings had been closed, transport of goods regarded as non-essential or transport of private consignments exceeding 56 pounds had been suspended, and hours for receipt of civilian goods reduced. Some additional coal was delivered to Victorian and South Australian railways, which were heavily dependent on New South Wales coal for railway operation, although they did have some local supplies. Western Australia used its own coal, but it was of a type which could only be stored for short periods. Queensland and Tasmania had local supplies. But for Australia as a whole, New South Wales was the key State, providing eighty-three per cent of all coal consumed.

In the face of gloomy forecasts by N. R. Mighell, the Coal Commissioner, of worse to come, the Fuel Co-ordination Committee in May 1944 concluded that total coal consumption should be further reduced by 30,000 tons a week, 7,000 by railways. This was to be achieved by reducing rail consumption of New South Wales coal which, in the situation as it then existed, meant virtually by New South Wales railways alone. There country train services were reduced, sleeping cars eliminated, and freight drastically reduced, timber, for example, by two-thirds, cement by half, fodder by half. Results were disappointing: coal consumption fell by 2,800 tons a week instead of 7,000, and there were massive accumulations of wool, timber, cement, and other goods awaiting transport.

Meanwhile other States had their own particular problems. Queensland was already firing engines with timber instead of coal, though supplies were limited by manpower shortage, and the pressure had eased a little by the latter part of 1944 because army transport needs were less. Nevertheless reserves continued to fall; in Townsville railway coal reserves fell between September 1943 and September 1944 from 30,000 to 12,000 tons.

Victoria, with falling rail reserves of black coal, faced demands for transport of livestock from drought areas in northern Victoria, of fat lambs, and of large quantities of export goods including flour. As recorded above, passenger train services and goods traffic had already been cut in September 1943; further reductions were made in bulky goods—wheat, firewood, cement, timber—while freight from country stations other than perishables was cut by half. The objective was to reduce consumption of coal throughout Victoria to 7,000 tons per week. Firewood had already been used in engines for some time, with the familiar difficulty of insufficient men to produce the desired quantities.

As chairman of the Cabinet sub-committee on coal, Dedman, Minister for War Organisation of Industry, in September 1943 reported on the seriousness of the situation. New South Wales railways had fallen far short of the planned saving of 7,000 tons per week and all rail systems were in difficulties: State railway authorities in default of Commonwealth guidance were applying percentage cuts to freight as best they could but, reasonably, were asking the Commonwealth to determine the basis on which essential goods should be restricted. For this purpose there was set up, under War Organisation of Industry chairmanship, a Transport Priorities Committee

which first met on 26th September 1944. It endorsed the reduction in country passenger trains and elimination of sleeping-car accommodation which were saving coal. Victoria, it was agreed, should get more coal. Defence departments were urged to limit their demands to make way for movement of livestock, fodder and food, with special reference to the effects of the current drought. The possibility of diverting some freight to coastal shipping was explored, but it appeared that little help could be hoped for until additional supplies of coal were available for the ships and additional labour for the wharves. Responsibility for from time to time setting priorities for rail transport of various goods was taken over by this committee, which established State branches in New South Wales, Victoria and South Australia to interpret its rulings in the light of local operational conditions.

The seriousness of the situation is illustrated by Victoria. Compared with October 1943 freight and passenger services had been reduced a year later by half; wheat by 40 per cent, wool by 50 per cent, firewood by 70 per cent, flour and petrol by 25 per cent, cement by 50 per cent, and rice-straw and flax eliminated. The Transport Priorities Committee directed top priority for all livestock and fodder (because of drought) but since additional coal for this purpose was not forthcoming general traffic was further curtailed. With the approach of summer (and its bush and grass fire risks) use of firewood in engines, which had been saving 650 tons of coal a week, was abandoned. There was concern that seasonal movement of fresh and dried fruits, tomatoes and fertilisers would soon be required, and that coal supplies would become desperate because of the annual holidays which all miners took over the Christmas period. Fortunately, however, September to October 1944 proved to be the low point, and gradually supplies were built up to maintain basic services after this period.

Overall a modest improvement in supplies and the easing of the demands on the railways from this time permitted the War Railways Committee to approve in April 1945 a modest increase in railway supplies of New South Wales coal, with consequent improvement in frequency of train services and modification of priorities. Until the end of the war (and after), however, near-crisis conditions continued and although coal stocks never dropped below the levels of late 1944 they were never adequate or reliable.

Earlier, in March 1944, another administrative change had occurred. The Land Transport Board was abolished (it had exercised its powers in the name of the Minister) although the Directors of Rail and of Road Transport continued to function. Clapp, the Director-General, was seconded to undertake a study of the possibilities and problems of unifying gauges as part of post-war planning. In addition, in November, a Transport Advisory Council was created to devise plans for co-ordination of land, sea and air transport in the post-war period.

FUEL FOR ROAD TRANSPORT

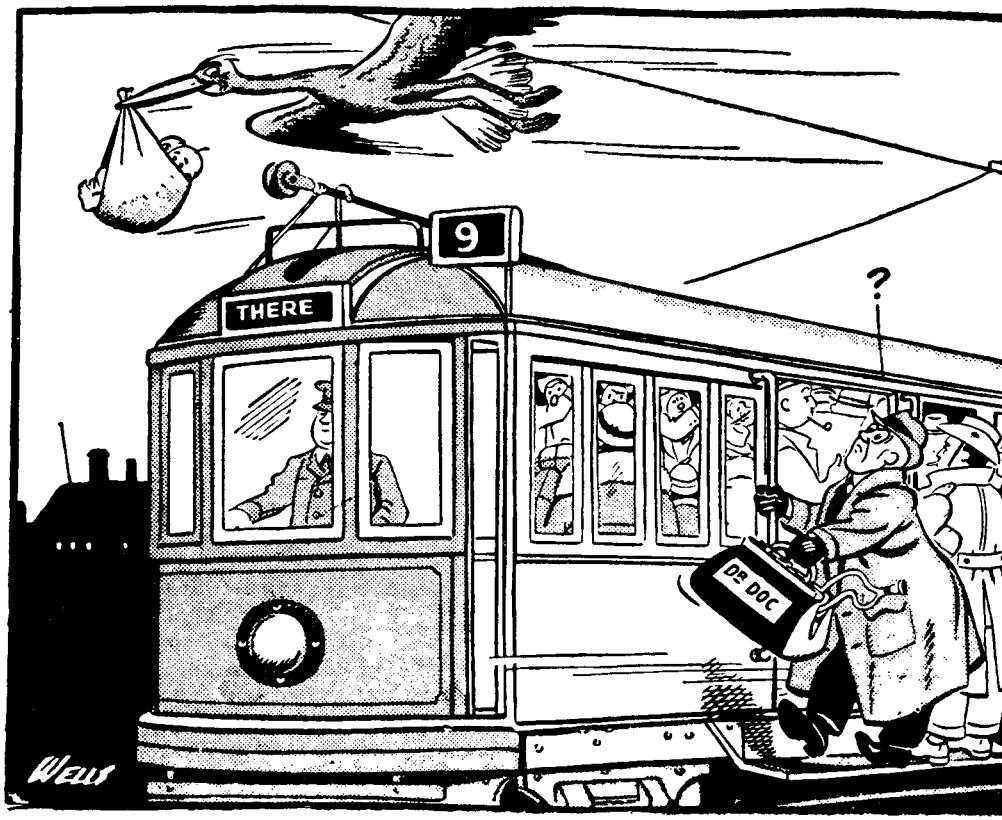
There had been reduced petrol supplies from the early months of war; consumer rationing had dated from October 1940; but war in the Pacific greatly intensified the problems. Japanese forces occupied the nearest sources of supply and jeopardised shipping from, for example, the Persian Gulf. The usage of petrol by Australian forces sharply increased, to which were soon added the needs of United States forces in Australia. More severe rationing of petrol and greater use of substitute fuels were clearly required.

Petrol was rationed by the Department of Supply's Liquid Fuel Control Board, operating through State administration. Liquid fuel consumers' licences were marked with priority numbers, originally designed for emergency conditions but adapted for continuing use in rationing fuel and for other purposes such as permits to purchase tyres and batteries and to secure producer gas units. The formal decision at the beginning of 1942 to use these priority gradings to guide other restrictions highlighted some of their difficulties. For some other purposes they were not sufficiently selective, particularly Priority 3, which later was to become the highest priority with access to tyres and other replacement items. A classification based originally on emergency use was not always appropriate for continuing application; there were many instances of vehicles in Class 3 which were used for what appeared to be less vital purposes than those in classes of lower priority. The priority grading was designed to indicate an amount of petrol considered appropriate and did not, except by chance, correspond with a need for tyres. Classification was, necessarily, done by a large number of people in different areas and instances were frequent of vehicles engaged on the same work having different priority gradings. These were difficulties inherent in the use of any single priority system for divergent purposes, especially when the system had to be a compromise between a set of classes sufficiently broad and simple for easy administration on a decentralised basis, and one which would be selective and sensitive enough to achieve the desired discrimination. No solution could be other than moderately satisfactory, a fact which encouraged many evaders to convince themselves that they were morally justified in correcting the errors of the bureaucrats.

Pre-war average consumption had been about 30,000,000 gallons a month. The first petrol rationing, introduced in October 1940, had aimed at reducing this by ten per cent; in April 1941 the review of this ration scale and revision of the classification of business cars were designed to reduce total Australian consumption to 20,000,000 gallons monthly by July of that year. Stocks, however, went on declining and further ration cuts were designed to bring monthly consumption down to 12,000,000 gallons, although the average for the second half of 1941 proved to be 15,000,000. Japanese entry into the war precipitated further cuts in private and business rations and use of substitute fuels, so that early in 1942 the 12,000,000 gallon target was achieved. The private motorist ration was designed to permit about eighty miles a month, regarded as just

THE STORK GOT THERE FIRST

The Fuel Board proposes that doctors should use trams when visiting patients.



Wells in Herald (*Melbourne*), *19 May 1943.*

enough to keep the battery charged and the vehicle serviceable if emergency use were required. This basic ration and other non-Service rations remained unchanged until 1944.

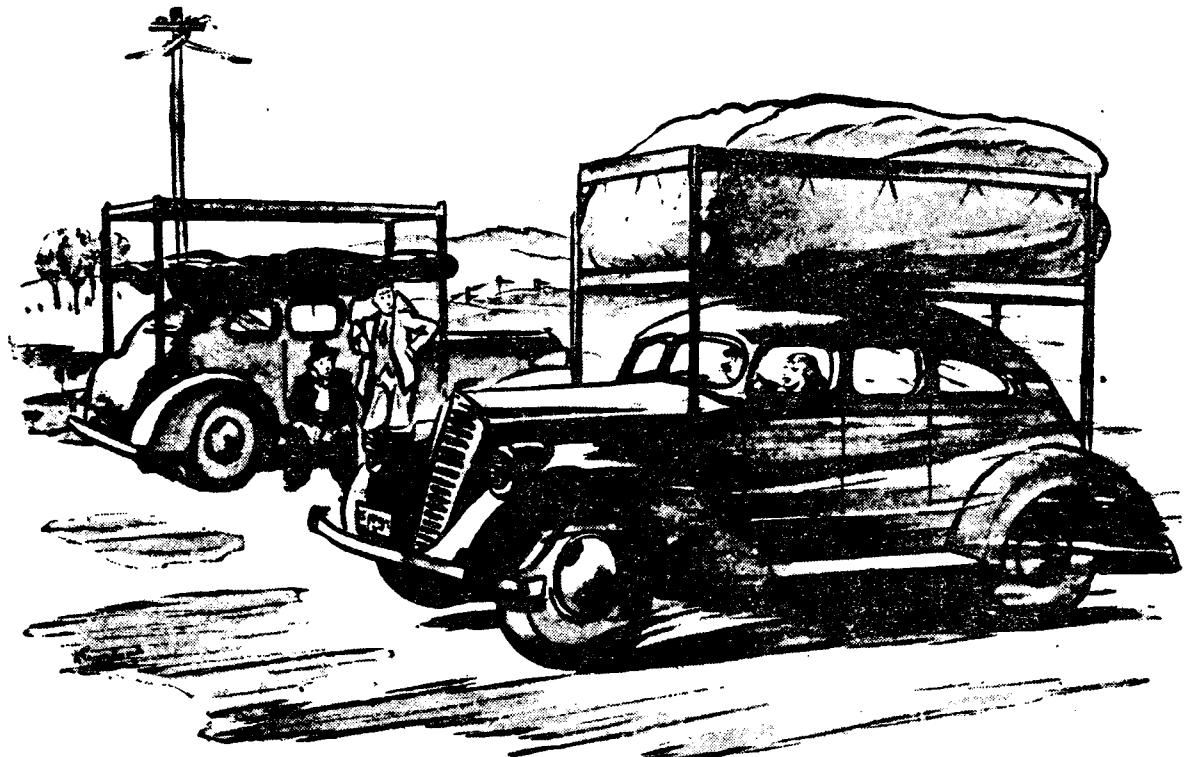
Loss to the Japanese of nearer sources of supply and the sharply increased uncertainty of delivery prompted special arrangements for increased storage. Prior to 1942 storage facilities were little more than those developed for peacetime trade and, moreover, were primarily in major ports where they were both vulnerable to attack and a fire hazard. It seemed in early 1942 that supplies might be totally interrupted for indefinite periods, while increased war activity and the influx of American forces meant increased consumption. Plans of April 1942 provided for increased storage for 114,000,000 gallons of which stores for 110,000,000 were constructed by the Allied Works Council during 1942-43, in four main groups: bulk inland storage of aviation fuel for the Australian and American air forces; seaboard storage of aviation spirit; naval fuel storage; bulk seaboard storage of petrol for motor vehicle fuel. Stocks did fluctuate widely. Thus in March 1944 diversion of tankers associated in particular with urgent needs in India reduced stocks of petrol in two months by a quarter, from 132,000,000 to 100,000,000 gallons; they were restored several months later to 124,000,000, but between September 1944 and April 1945 diversion of tankers to feed operational areas in Europe and the Pacific reduced stocks again by one-third.

An additional pressure on stocks in the last two years of war was increasing civilian consumption of petrol. It is impossible to measure how much of this was due to black marketing; evasion of controls and use of forged coupons were never completely eliminated, but by this time controls over the supply of tyres, batteries and spare parts appear to have been more potent weapons against black marketing than coupon rationing. The important rise in consumption had two main sources: from 1942 to 1944 there were substantial releases of new commercial vehicles under Lend-Lease, and from October 1944 the mounting opposition to the use of producer gas had led the Government to exempt vehicles over thirty hundredweight from the obligation to use substitute fuels. Petrol consumption rose to 16,000,000 gallons monthly by September 1945. With the end of hostilities there was insistent pressure to relax rationing despite a continuing acute shortage of tyres: the ration for private motorists and for primary producers was increased by 25 per cent in September 1945, and for all consumers by a further all-round 25 per cent increase the next month, by which time civilian consumption was running at the level of 20,000,000 gallons a month.

Substitute Fuels

From the beginning of the war shortage of petrol had dictated efforts to use substitute fuels of which, in practice, the most important was producer gas.[2] Other possibilities had been explored. There was small-scale

[2] Derived from slow combustion of charcoal in a bulky metal burner fitted externally, in the case of cars at the rear. This involved carrying and handling bagged charcoal, removal of ash and frequent cleaning, and was unwelcome.



"We girls know when you men DO *run out of gas these days."*

Bulletin (*Sydney*), *20 May 1942.*

production of shale oil in New South Wales, at the rate in 1942 of 700,000 gallons a year, and it was thought that with government subsidy this could be raised to 2,000,000 gallons, although results were disappointing and not commensurate with the resources devoted to the project. Town gas was used to a modest extent, but the bulk of the gas container required limited range and questions of safety meant that this was a very minor alternative.[3] Wet alcohol was produced (for example from wheat) at distilleries in New South Wales, Victoria, South Australia and Queensland, but production posed difficulties and was never large. Its use, mixed with conventional petrol was unpopular because, it was claimed, it caused rust and damage. There were ingenious designs, which came to nothing, for cars to run on steam and a very limited development of electric vehicles. But in 1942 the Controller of Liquid Fuel[4] correctly argued that, in the short-run the only substitute fuel capable of any extensive use, in the conditions of the time, was producer gas. He estimated that the maximum foreseeable production of other substitute fuels would be the equivalent of 6,000,000 gallons of petrol, about four per cent of 1942 consumption. Producer gas units already fitted in 1942 produced power, on his estimate, equivalent to one-quarter of that from petrol then being consumed. Other substitutes required extravagant use of resources for modest results, and were less adaptable than producer gas which could be used for most road transport.

Efforts to promote its use intensified in 1942. In January Full Cabinet exempted vehicles fitted with producer gas units from the restrictions then imposed on non-essential services (which included road transport duplicating a rail service); in April it rejected a Department of Transport proposal to modify this freedom. It was not indeed until February 1944, and then because of shortage of tyres and other spares, that this decision was rescinded, although even then some vehicles were exempted, such as road transport services between Geelong and Melbourne, the justification being that the haul was under fifty miles and the railway could not carry all goods offering. More important than these decisions was the application of other controls. Non-essential vehicles with producer gas units were progressively immobilised for lack of tyres and spare parts. New and second-hand units were officially permitted to be fitted only to vehicles for essential use, although the simple manufacturing processes allowed a good deal of evasion. Sale of vehicles fitted with units was subject to permit from July 1942 to channel such vehicles to essential use.

On the whole policy was logically directed. Most units were going to essential vehicles, with some toleration of non-essential use; producer gas units were being manufactured, and they worked with a reasonable efficiency. The limitation on their use was the continuing reluctance of vehicle owners to fit them. Retail costs varied but were in excess of £100,

[3] A large rectangular bag to hold gas was carried in a metal frame on the roof of the vehicle, increasing its height perhaps three feet; frequent refilling was necessary so that vehicles used for short runs in urban areas (for example, taxis) were the only relevant ones.

[4] J. E. England.

State	Cars	Lorries, Vans and Tractors	Cycles	Buses	Taxi cabs	Unclassified	Total Producer Gas	Total Registrations All Vehicles	Percentage – Producer Gas to Total
New South Wales at 2.4.44	5,074	11,124	13	221	365	—	16,797	282,097	6.0
Victoria at 17.2.44	7,285*	7,454	20	—	329	1,107	16,195	248,681	6.5
South Australia at 31.1.44	1,102	1,967	32	—	—	1,447	4,548	44,340	10.3
Queensland at 31.12.43	1,682	2,606	2	22	—	193	4,505	127,390	0.4
Western Australia at 31.12.43	3,138	6,391	16	113	—	—	9,658	53,448	18.0
Tasmania at 31.12.43	—	—	—	—	—	1,544	1,544	26,807	5.8
Australian Capital Territory at 29.2.44	25	29	—	3	4	—	61	1,917	0.3
Total	18,306	29,571	83	359	698	4,291	53,308	784,680	6.8

* Includes tractors.
Source: Department of Transport statistics.

and the expenditure was not tax-deductible; resale value was negligible and the life of units was at most three years. Their use involved dirty and tedious work in fuelling and cleaning. Fitment could be required of vehicles in the highest priority classes but this could not be effectively enforced on a comprehensive basis because of shortage of other essential parts. Moreover the Army opposed fitting of units to any vehicles which might be impressed.

A fair degree of success was, however, achieved. The War Road Transport Pool in New South Wales reported that by 1943 25 per cent of vehicles in the pool were fitted with units (and another 25 per cent operating on other substitute fuels); the Victorian pool had 33 per cent of its vehicles running on producer gas and the South Australian 30 per cent. By that time, however, the policy of compelling installation of producer gas units was under critical scrutiny. The central control authority for the release of Lend-Lease vehicles in late 1943 urged that compulsion be relaxed for new Lend-Lease vehicles and for vehicles in general. Passive resistance was becoming widespread. Officially any operator who failed to obey a direction to have a unit fitted had his petrol ration reduced by seventy-five per cent. But increasingly operators refused, and essential transport was not done. Inevitably therefore enforcement was lax, although the interruptions to petrol supplies early in 1944 prevented any open relaxation until October. Then exemption of trucks over thirty hundredweight (including removal of units already fitted) was approved, and it was agreed that all producer gas units be abandoned as other conventional fuel became available.

Figures, relating to early 1944, released by the Department of Transport in June that year, indicate the extent of use of producer gas at the peak of the programme; they are reproduced in the table on page 270. (Some contemporary sources refer to a maximum of 60,000 vehicles, and this figure may have been attained temporarily; it may have also been a loose rounding up of the figure, 53,308, in this table.)

VEHICLE ACCESSORIES

Japanese occupation of Malaya and the Netherlands East Indies denied the Allies three-quarters of their peacetime supplies of natural rubber. Ceylon and India, the next most important source, had supplied only ten per cent of the world's rubber in peacetime. Some thousands of tons of rubber were hastily shipped to Australia from the north in the brief interval after the first Japanese attack, but Australia faced a gloomy stock position at the beginning of 1942, with a small ration of natural rubber allowed by Allied control from rubber production not in Japanese hands. Even though Papua escaped occupation, rubber production dwindled with the evacuation of planters early in 1942. Alternatives were anxiously canvassed. Synthetic rubber was available, but in limited quantities only, from the United States; investigation of the possibilities of local synthetic production foundered on the realisation that the Australian chemical industry was fully committed, and the engineers that would be required were

simply not available.[5] Reclaimed rubber seemed a possibility and a campaign launched in July 1942 produced dumps totalling half a million old tyres capable of being reprocessed into inferior but useful rubber. But despite the working of rubber reclamation plants on a continuous basis the output was never large. The simple fact had to be faced: Australia's main supply of rubber was in tyres already in use on the road. The vital thing was to restrict the using up of this stock.

Production of tyres for passenger cars was terminated immediately. At the beginning of 1942, there were 300,000 new tyres in dealers' stocks, which had dwindled to 80,000 two years later in February 1943 despite restriction of sales to essential users, in practice primarily those in (liquid fuel) priorities 1 to 3.[6] There were difficulties in this basis of control, which led to accusations of inefficiency and black marketing, with some substance. Liquid fuel priorities were designed primarily to control the size of the petrol ration, which did not necessarily correlate well with the importance of the work being performed. For a long time during 1942 applications for permits to buy tyres were destroyed immediately after processing, so that duplicate applications for the same vehicle were not disclosed, and multiple purchases with subsequent resale to others were possible. With only limited success the Department of Transport pressed for a tighter system of control, which continued to be administered through Liquid Fuel Control in the Department of Supply. Not until early 1943, on the initiative of the Controller of Rubber in the same Department, was the system made really effective.

The first rubber control order of December 1941, hastily drafted after Japan entered the war, and a further six orders during 1942, whittled down the types of rubber products which could be made and reduced the number and types of tyres. Dealers were required to furnish records of stocks and their sales were restricted on a percentage basis. Order No. 5 in June 1942 first required formal declaration by a buyer that his vehicle fell into priorities 1 to 8, that his tyres were unfit for further use, could not be retreaded or repaired, and would be handed over in exchange for new tyres; it also required a description of the work performed by his vehicle. Not until August 1943 did Order No. 8, following much intra- and inter-departmental argument, bring wide-ranging control over the release of all tyres, new or second-hand, and require a permit to purchase of everyone who wished to buy tyres.

This was belated response to a critical situation disclosed at the fifth meeting of the War Road Transport Committee in May 1943, when the Controller of Rubber reported on the declining supplies of tyres now aggravated by labour shortage, and by the heavy demand for tyres for the air forces, both of Australia and the United States. Reorganisation of production to meet this demand from March had seriously delayed production of car and truck tyres. Aircraft tyres under operational condi-

[5] See Mellor, *The Role of Science and Industry*.

[6] By way of illustration, primary producers were priority 4, retailers priority 5. Priorities 1 to 3 included about 45,000 vehicles of all types.

tions had a short life and involved larger quantities of rubber and more labour than vehicle tyres. The Controller estimated that in material and labour terms one aircraft tyre was an alternative to three truck tyres. He estimated that, on the evidence then available, less than half the trucks could be supplied with new tyres when those at present in use were worn out. The objective he sought, finally attained three months later, was that no tyre be sold without a permit, that liquid fuel priority be treated as only one of the factors in the issue of a permit, which should no longer rest with Liquid Fuel Control but be transferred to the Rubber Controller; the War Road Transport Committee and Liquid Fuel Control would be recommending bodies. Application of these principles by Order No. 8 entailed much administrative work: the checking of consumers' fuel licences, the work being done by the vehicle, use of substitute fuel, previous applications for tyres, the condition of the vehicle (for example its probable working life). But the order did at last produce effective control over the precious supplies of new tyres.

Less success attended the attempt to include second-hand tyres, by requiring that such tyres be sold to an approved manufacturer or dealer, and that purchase be subject to permit. No real control was possible over the source of second-hand tyres; private sales and the activities of unrecognised dealers escaped control. There was at best a direction to the honest citizen, and apart from sporadic attempts to publicise the order by occasional demonstrations of enforcement, the authorities had to console themselves with the reflection that other controls—petrol rationing, servicing, spare parts—were progressively restricting use of vehicles for which a tyre permit would not be issued. There was a black market of sorts in all these trades, but such needs as servicing and spare parts did provide a high degree of control; there was a shortage of repair shops, mostly fully occupied with essential work; tradesmen working overtime had less inclination (and less access to equipment) to undertake unauthorised repairs and servicing in their spare time.

A further restriction in Order No. 8 concerned repairing and retreading of tyres. Such work on vehicles in priorities up to 12 required a permit. This initially created the anomaly that continued operation of many such vehicles, when fitted with producer gas units, had been approved and it was not until February 1944 that substitute fuel policy and rubber policy were reconciled by cancelling the approval of producer gas vehicles operating non-essential services.

The impact of tyre shortages was surprisingly slow. Partly this is to be attributed to the tightening of restrictions after the initial measures of December 1941, partly to the ease with which they could be evaded prior to August 1943. Well-publicised examples of wastage of tyres by the Services encouraged evasion, as did unfortunate publicity about rubber salvage which created the impression that large stocks of reclaimable rubber were not used because they were not needed (whereas the difficulty was capacity to process them). Moreover, apart from the cruder forms of alleged dealing in improperly obtained tyres, there was a large,

uncontrollable reserve of used tyres arising from the fact that many private car owners abandoned the use of cars which they garaged for the duration. Their tyres would deteriorate if unused, and it was desirable that they should be transferred to vehicles in operation, but it was impossible to control the multitude of private sales so as to direct them to vehicles in essential use.

Only moderate success attended campaigns to reduce tyre wear by guiding the ways in which vehicles were operated. On the unsealed, pot-holed roads of central Australia little could be done to reduce the high rate of tyre wear (and deterioration of vehicles). But on short urban hauls reconditioning of tyres before they were worn too far, limitations on speed, and on overloading, were at least promising. In February 1942 the Department of Supply issued advice on tyre reconditioning which optimistically argued that with a proper programme of reconditioning a tyre could be made to last 90,000 miles.[7] This might have been achieved under ideal conditions, but in fact acute manpower shortage in tyre workshops and heavy demands on them from army vehicles, especially in Queensland, and their use throughout the country for manufacture of munitions components, meant that tyre reconditioning was rarely available for civilian vehicles at the appropriate time in the life of the tyre, and tyres were commonly used beyond the point where this ideal programme could be applied. Concerned because retreading tyres was far more economical of labour and rubber than making new tyres, the Controller of Rubber pressed for labour protection for the industry but it was not until July 1943 that some 228 workshops engaged in reconditioning tyres were protected, and labour continued to be acutely short throughout the war.

Attempts to reduce overloading of vehicles to prolong the life of the vehicles themselves as well as their tyres similarly had poor success. There was always a decision to be made, balancing the greater quantities of goods carried in shorter time by overloading against the additional wear, and conditions varied widely in different areas. In mid-1943, for example, Queensland had serious shortages of vehicles and drivers and the need for rapid movement both of civilian goods and Service supplies appeared urgent. Drivers were working 16 to 18 hours a day often with 100 per cent overload; accidents were frequent and vehicle and tyre wear extremely rapid. There was confusion and uncertainty as to what did constitute overloading. Available standards were drawn from the United States or United Kingdom and were based on different climatic conditions, better road services and, in the United Kingdom's case, shorter daily mileage. Wartime tyres were made in Australia to rubber-saving specifications which fell below these standards to an extent only discoverable by experience, and the same applied to tyres made of Buna S[8] (the synthetic rubber then used) and to tyres or retreads including reclaimed rubber. In the event, although the formal imposition of load limits was planned in June

[7] Made up thus: new tyre, 30,000 miles; after regrooving, 10,000; then recapped, 20,000; second regrooving, 10,000; then retreaded, 20,000.

[8] See Mellor, *The Role of Science and Industry*.

1944, practical problems of defining and implementing them under highly variable conditions led to reliance on the more manageable device of standard speed limits, at 40 miles per hour in January 1943, reduced to 30 miles per hour in April and the general diffusion of awareness of the effects of overloading.

By 1944 availability of tyres had become perhaps the most critical factor in determining whether a vehicle could continue on the road, and the emphasis was on restrictions on the use of tyres because little could be achieved in improving new tyre production. From July to December 1944 only 71 per cent of approved applications for new tyres for cars and light trucks could be met; from January to February 1945 only 51 per cent. A special shortage was that of carbon black, which was blamed for production of tyres from February to March 1945 falling to only 50 per cent of planned output. There were other shortages: of rayon cord, and bead wire, but the dominant one was of manpower, accentuated by the need to install new equipment and alter plant to handle synthetic rubber and by the continued Australian manufacture of tyres for the United States forces in Australia.

During 1945 falling military demand improved the production of tyres for civilian use, although industrial disputes and coal shortages meant that no stocks were accumulated. But allocation of tyres could be and was improved for general transport and commercial use. By September 1945, with the exception of some special types, all second-hand tyres were released from control and further easing of restrictions followed the sharp decline in military demand as the war ended. In December 1946 it was possible to revoke all rubber controls.

RESTRICTIONS ON ROAD TRANSPORT

Economies in tyres and fuel, vehicle rationing and pooled use of vehicles, were accompanied by a multitude of restrictions on transport of goods and on interstate travel. As discussed earlier in this chapter, the general restriction of interstate travel, introduced in June 1942 was of more importance as applied to rail travel. Long distance bus travel was little developed in Australia and middle-distance routes across State borders or close to them were primarily designed to serve local travel where railways were not available. Initially the system of passenger permits to travel was not applied to them, and the few road services which continued to operate interstate were unchecked by any system of priorities. But people who were unable to secure permits soon identified bus routes which could provide a cross-border link between two train journeys, so early in 1943 the passenger permit system was extended to cover such services. Thus five bus services converged from Lismore, Murwillumbah and Kyogle at Tweed Heads in the north-east corner of New South Wales, from whence it was easy to move the short distance into Queensland (the energetic and lightly-burdened could even walk); there were linking bus services from Coolangatta (over the border in Queensland) to Brisbane. Woodenbong also just inside New South Wales was linked by a direct

service to Brisbane, and other purely New South Wales routes ran to Woodenbong. Concurrently the number of "border" railway stations at which permits would be checked some distance from the actual border was extended, and with an eye to their relationship to relevant bus routes. Thus, in relation to the bus services mentioned above, Tenterfield and Casino, though well south of the border, became check stations. "Border hopping" was made increasingly difficult and time-consuming, but was never fully eliminated, sometimes because of odd anomalies arising from failure to control certain services. But it came to be accepted that the closing of all loopholes was impracticable and not worth the administrative cost nor the resentment of people who were in fact engaged in normal local travel which happened to be technically interstate. And indeed on the scale to which it was reduced, border hopping did not matter; the combination of rail and road permits was reasonably effective until the relaxation of rail controls in 1945, which made it unnecessary to continue the road restrictions, particularly as the attenuated bus services continued to be restrained by fuel rationing and tyre shortage.

Commercial Deliveries

In addition to restrictions on transport by rail and road under the Land Transport regulations there were restrictions on the delivery to consumers of goods other than milk and bread, sponsored by the Department of War Organisation of Industry. From April 1942 home deliveries were prohibited for other commodities unless they were more than four pounds in weight or over three feet in length, when they might be delivered by weekly services. Butchers were permitted to deliver not more than three times a week to homes more than a mile distant. Milk and bread deliveries were zoned; previously it had been normal for householders to enjoy competitive supply of these, but at the cost of a great deal of detailed work and negotiation with trade associations each "zone" became the exclusive province of one supplier; expected savings of manpower were as important in this plan as vehicle economies. The model for the Department was the "blocking" system introduced, for example, in Melbourne in late 1941 and early 1942 by the Melbourne Milk Board, which had been estimated to have reduced the number of carters required from 1,400 to 1,000.

These restrictions were the target of much criticism. Women workers absented themselves to purchase during working hours from shops not otherwise open to them; and for women with young children, or distant from shops, or for the physically handicapped there was a genuine burden, only mildly relieved by the appearance of various light wheeled contrivances to transport purchases. In the face of such criticisms the Department of War Organisation of Industry, from early 1943 on, was prepared to accept relaxations, but the Department of Transport resisted and the only change prior to general relaxation of transport controls in October 1945 was to permit more general delivery of meat.

Pooling

Pooling of road transport vehicles was approved in principle at the War Road Transport Committee meeting in June 1942. Existing voluntary pools were accepted as the basis of approved pools, which were seen as being of two types. City pools would carry bulk cargoes to and from wharves and railheads, covering such freight as wool, petrol, bricks, coal, coke, flour, print, miscellaneous parcels. Country pools were to be aimed at amalgamating various delivery services, eliminating duplication and light loadings, and ensuring the use of the most suitable vehicles for the particular function. The sanction for securing that operators would join pools and co-operate in these objectives was that operators who stood out would not get priority ratings for fuel, producer gas units, tyres, permits to buy new vehicles, parts, servicing and repairs; their employees would not get Manpower deferment, and their vehicles would not be protected from Service impressment. In short, if the Department of Transport so decided, a recalcitrant operator could be put out of business.

With the mounting volume of traffic in 1942 pooling spread rapidly. Early approved pools were Sydney War Transport Pool, comprising heavy hauliers only; Melbourne War Road Transport Pool, with a light delivery division including operators delivering small consignments; Brisbane War Road Transport Pool, like Sydney, restricted to heavy hauliers; Adelaide War Road Transport Pool, with divisions for heavy haulage, small consignment delivery, furniture removal, and timber cartage; Yorke Peninsula Pool (in South Australia) which had professional carriers as full members and ancillary users (principally farmers) as associates; Townsville Pool (in north Queensland) of professional carriers only. Others which followed were at Perth primarily concerned with Fremantle wharf traffic, and in 1943 at Townsville and Cairns special pools to concentrate on the heavy shipments to these ports for the Services and the Allied Works Council, and at Newcastle. By 1944 there were other pools such as one at Liverpool on the outskirts of Sydney concerned mainly with primary produce. The largest pool was that at Sydney with 1,790 vehicles, followed by Melbourne with 1,510.

To organise the country pooling schemes local transport advisory bodies were used. Under an order of July 1942 appropriate bodies were given power to direct the use of vehicles; by a year later 225 such authorities had been authorised to direct cartage of wheat and other seasonal products. A widely varied series of rationalisation schemes, adapted to local needs and conditions, was evolved, such as an arrangement originally developed late in 1942 in Gippsland (Victoria) by which retail deliveries to primary producers were confined to milk and cream collection vehicles for which these deliveries became backloading; similar arrangements were then extended to other dairying areas in Victoria, and to other States.

Nominally transport pools remained voluntary self-governing organisations, and the earliest ones, in Sydney and Melbourne, grew out of existing master carrier pools. From time to time formal compulsion was

considered, but as the sanctions noted above were potent ones, the gain from explicit powers of compulsion did not appear great, and in fact Cabinet was unwilling to take that step. From time to time there were difficulties in securing genuine participation in pooling; Adelaide and Perth pools introduced a system of permits for cartage from the wharves to eliminate operators who were not co-operative in accepting goods for transport to the wharves from any source. In Adelaide, for instance, this reduced the number of trucks operating wharf carriage from 190 to 130. Voluntary pooling did not always run smoothly. Thus controversy in May 1943 over the accumulation of goods at Brisbane rail terminals came to a head at a War Road Transport Committee meeting, when usual explanations in terms of shortage of manpower, lack of cranes and the like, were met by claims that carriers were unable to get sufficient vehicles, that unloading of trucks at destination points was delayed because Service and private establishments were not open for receiving goods at all hours. Small operators alleged that the large carriers were monopolising the most profitable and easily handled goods, and former carriers discharged from the Services alleged that they were prevented from re-entering the carrying trade by existing members. Running disputes of this kind occurred at times in various pools and there appears to have been some truth in all the complaints.

Legal authority to compel pooling and direct operations of pools was contained in the basic Road Transport Order of 21st July 1942, section 5 of which declared:

> the owner of any vehicle or any other person for the time being having possession or control thereof shall as and when required or directed by a proper authority in accordance with the provisions of this Part—
> (a) pool any vehicle facilities or service with those of any other specified person or persons;
> (b) accept for delivery and deliver any specified goods;
> (c) accept for carriage and carry any specified persons;
> (d) let or supply any vehicle or facility to any other specified person or persons;
> (e) otherwise deal in any specified manner with any vehicle or facility.

Here, legally, was ample power, but there was sensible reluctance to apply it generally for that would have involved a mass of detailed administration. The possibility of and occasional actual resort to compulsion in specific instances reinforced the indirect but pervasive influence of other controls over motor transport. The detailed operation of pools left to the pools to organise for themselves, was preferred to what could have become an administrative morass.

After the early pools, mainly in cities and large towns, and covering the main bulk of professional carrier services, had been organised there remained services concerned with the collection and delivery of goods for secondary industries and wholesale and retail traders, services which had already been to some extent pooled or incidentally incorporated in the professional carriers' pools. Orders promoting the further grouping of such services were mainly a State affair, and mostly took the form of limiting the distance over which such services might operate. In New

South Wales where restrictions of this type, designed to protect railways from competition, were of long standing, no new policy was deemed necessary. In Victoria, South Australia and Western Australia, on the New South Wales model, services were limited to 25 miles radius for capital cities, and 20 miles elsewhere; in Queensland, the limit was 10 miles with provision for longer distances under permit. In country areas there were two main groups of vehicles, those of storekeepers and traders delivering goods to non-urban customers, and primary producers carrying livestock and produce to rail, market or port, with their own supplies as backloading. The first were mainly dealt with by pooling, or organising professional carrying services in place of individual services; the second were more complex because of the variability (including seasonal) of the need, and the fact that in general vehicles used in primary production were rated priority 4, which, in practice, meant that they were not supplied with tyres. There were a great many *ad hoc* and temporary arrangements organised on an area basis by local transport advisory bodies, who were also encouraged to promote pooling where this was an effective solution. The effectiveness of indirect control was illustrated at the beginning of 1943 when the Rubber Controller reported that of 500 applications for tyres for vehicles carrying primary produce, sponsored by local transport bodies not yet fully aware of the conditions for eligibility, 450 were withdrawn when it was explained to the sponsoring bodies that tyres were only available to such vehicles if pooled.

By August 1945 it was agreed that the pressure in Melbourne had fallen to a level which warranted discontinuance of pooling, and in any case the internal cohesion and discipline among members of the pool showed signs of disintegrating because pressure on vehicles had fallen. The Sydney pool, however, was facing its heaviest burden because of the needs of the United States forces and of units of the Royal Navy now operating from Australian bases. The pool had handled an average 18,000 tons of wharf freight a week from May to June, and 28,000 tons a week in July, and wharf freight was 85 per cent of all business of the pool. More vehicles had to be diverted to meet the need. Newcastle (New South Wales) and Queensland pools also experienced increasing demands and needed more vehicles as the war neared its end.

Pools were in fact officially maintained for a short while after the war's end, but then all government sponsorship or support was progressively withdrawn, not only because the legal basis for Commonwealth action was a purely wartime one, but also because continued operation of pools was in the eyes of a Labor government monopolistic. Whether or not monopolistic in fact or purpose, such joint activity of professional carriers acting in association, as carried on into peace, merged into the normal activities of peacetime private enterprise.

SOURCES OF NEW VEHICLES

The only practicable source of new vehicles (primarily trucks) was the United States whence, however, because of the needs of its own

Services and of other Allies, and the time required for processing of Lend-Lease allocations, no significant supplies were available until February 1943. The Army therefore turned to widespread impressment of civilian trucks and utilities (a process in which United States forces in Australia were also to some extent involved). The Department of Transport reacted hostilely because such action cut across its efforts to organise such vehicles into pools and generally to rationalise their use. The Army, however, successfully refused to accept any Transport veto over its choice of vehicles to impress, and continued freely to impress vehicles until Lend-Lease supplies arrived.

There was similar lack of liaison in preparing Lend-Lease requisitions. Separate requests went to the Division of Import Procurement from the Services and from Transport, requests which were varied upwards as these authorities reassessed their needs during 1942, and in July the Allied Supply Standing Committee sought with little success to secure co-ordination of such orders before they reached its own review sub-committee. At that date requests submitted comprised 19,335 vehicles for the Army and 3,148 for the R.A.A.F. The Land Transport Board which in May had assessed total civilian needs at 80,000, had increased its claim to 44,080 already specified and a further 48,920 foreshadowed, a total of 93,000.

By early 1943 procedures for the distribution of civilian vehicles arriving under Lend-Lease had been devised. The Land Transport Board was nominated by War Cabinet to control distribution, through authorised agents, at prices settled with the Prices Commissioner, to buyers approved by the Board on the basis of its assessment of where vehicles were most needed for essential transport. The procedure was highly effective in ensuring that vehicles ultimately were put to the most pressing use, but the administrative processes took much time, and there were justified complaints that delays in replacement of obsolete and worn-out vehicles were impeding essential transport and wasting tyres and repair services on vehicles which should be scrapped. The control allocation did not initially apply to government departments which, whether because it was the easy way to get their own work done or because of empire building by individuals, began to build up their own independent fleets of often incompletely utilised vehicles replacing the services of professional carriers still awaiting delivery of vehicles allocated to them. The solution was to extend the Land Transport Board's control over allocation to all vehicles other than those for the Services and the Allied Works Council.

First deliveries, mainly of International trucks, were in early 1943 to the Services and the Allied Works Council. Delays in assembling in Australia of 5,000 Ford trucks postponed their distribution, but with the arrival of large numbers of Chevrolet trucks in March and April and the beginning of civilian deliveries from the first order of 10,000 Internationals, the outlook became more hopeful. By the end of April deliveries had been 2,810 to the Services and government departments but only 410 to civilian users. Thereafter deliveries exceeded 1,000 a month and the

1943 totals were 5,022 to the Services and departments and 8,269 to civilian users. The Land Transport Board believed that 1,000 a month was about the best that could be achieved, but those awaiting vehicles were less easily convinced: the protracted process of application for "permits to acquire", restrictions on advertising and on dealers' sales and requirements about fitting of producer gas units, were principal targets for criticism for which some factual support existed.

Lend-Lease Vehicles to 31st December, 1943

	Total Order	Arrivals in Australia	Total Delivered to Users	Available in Australia	To Arrive
Chevrolet	11,662	6,884	5,284	1,600	4,778
Ford	6,350	6,150	3,312	2,838	200
International . . .	11,860	9,732	3,714	6,018	2,128
Other	3,288	2,023	981	1,042	1,265

The central control authority for Lend-Lease urged easing of distribution restrictions, and this and a Division of Import Procurement report were followed by a report from an Allied Supply Council sub-committee which concluded that while no relaxing of the rules regarding producer gas units was possible, other restrictions such as those covering trade-in, advertising, and hiring should be eliminated, and that the whole process of distributing Lend-Lease vehicles should be simplified and accelerated. The sub-committee was specially concerned too at the unbalanced nature of the deliveries, with, they believed, too many Internationals not adaptable to post-war requirements.

It also concluded that with the 11,000 vehicles still undelivered to users and 8,000 still to be shipped from America, Internationals would still be available until the end of 1945, Fords and Chevrolets until the end of 1944. Others were studying the figures too, and from America there came notice that, since total Allied requirements could not be met in 1944, and Australia alone was holding large stocks of undistributed vehicles, no shipments whatever would be made to Australia in 1944.[9] As forecast, Fords and Chevrolets were all exhausted by the end of 1944, though some International trucks were still unallocated at the end of 1945.

Accordingly, for 1945 orders were placed in the United States, Canada, and the United Kingdom where the end of war in Europe was releasing production capacity, and from whence 2,500 utilities were ordered. It was estimated that the small remaining stocks of Lend-Lease vehicles, releases from the Army, and these new orders, would add almost 16,000 vehicles to the civilian sector in 1945. Deliveries from Britain (anxious to regain for peace markets invaded by United States supplies) were prompt—1,000 utilities had arrived by mid-1945 and shipments of trucks came from the United States and Canada. Once again administrative bottlenecks delayed deliveries of the few thousand vehicles involved, this time mainly because the Prices Commissioner required two months to

[9] Except a minor item of 38 Reo chassis already earmarked for Australia.

determine fair prices for vehicles which meanwhile stood idle in the stores of the Division of Import Procurement.

A major source of relief came from the activities of the Disposals Commission set up to handle disposal of surplus war supplies, which late in 1944 commenced to sell vehicles released by the Services. It was planned that these should be offered successively to Commonwealth, then State authorities, and then, through normal channels to civilian buyers holding liquid fuel priorities 1 to 6, at prices fixed by the Prices Commissioner. Between September 1944 and April 1945 some 3,000 cars and trucks and 2,000 motor cycles, all those so far released, had been disposed of, a large proportion of the vehicles to primary producers.

The Department of Transport protested at sales not merely outside its permit system, but in disregard of its principles. Buyers, it claimed, were only by chance operating an essential service; they were often not entitled to tyres or spare parts and the vehicles were consequently often unusable. There was no restraint on immediate resale at a profit; vehicles were being sold in unroadworthy condition, and added strain to repair shops, especially in Queensland. Full Cabinet in April 1945 directed that sales of released vehicles should be controlled by the Department, and gave it a right to be represented at Disposals Commission meetings when any road transport equipment was discussed.[1] However, after the initial disposals (of vehicles in the most worn condition) the Army was reluctant to release vehicles until the war had actually ended, and thus releases came forward slowly.

This altercation had the effect of reopening earlier debates about control over sale of all second-hand vehicles, not merely ex-Service ones. Back in September 1942 the extreme administrative difficulty in effectively controlling such sales had led to its rejection, with the justification that other controls such as those over liquid fuel and tyres, would minimise abuse. The decision was reaffirmed in November 1944 and again in 1945 when the trade union representative on the War Road Transport Committee urged control as a check on profiteering. Along a different route it was raised again in April 1945 by the Minister for Trade and Customs because of high resale prices in defiance of price control. The Prices Commissioner urged that sales of second-hand cars require statutory declarations from both buyer and seller as to price paid, but this was not accepted; there were obvious procedures for evasion and at that stage of the war many members of the public would not be deterred. Surprisingly the alternative adopted for this particular case was to revive a practice abandoned in 1944 after sharp public criticism: officials were equipped with funds, and in the guise of private buyers made purchases which would provide evidence of evasion of price control. The expedient was shortlived.

Difficulties in the supply of vehicles were aggravated by chronic shortage of repair and servicing facilities—spare parts, equipment and tools, skilled labour—and the competition for these services from the Army, which used

[1] Full Cabinet Agenda 829 and 829a; Decision, 30 Apr 1945.

civilian workshops extensively for its vehicles, and from Munitions use of the same workshops for production of munitions components.

At the beginning of 1942 the Department of Supply froze 75 per cent of stocks of spare parts for various listed makes and models of vehicles which it seemed might be required for direct war activity. The remaining 25 per cent was available, under control, to civilian operators, as were such stocks as existed for vehicles not listed. Production of parts continued but increasingly the capacity of automotive parts factories was pre-empted for other production; by mid-1943, although supply of spare parts was then restricted to civilian vehicles in priorities 1 to 3, a major part of productive capacity was pre-empted for aircraft components. In June of that year shortage of some parts was acute, and their allocation restricted by the Automotive Spare Parts Order[2] to high priority work; some 331 skilled men engaged in parts manufacture were covered by labour protection. The Controller of Spare Parts, Department of Supply, had reviewed the gloomy position at the fifth meeting of the War Road Transport Committee in May. Optimistic ideas of recovery of parts from discarded vehicles were dismissed: the parts needed most were those subject to most wear; worn piston rings from old vehicles, for instance, were useless, even though at this time 60 per cent of all new piston rings produced were reserved for aircraft. Many scarce parts could not be successfully salvaged even if in good order, for instance cylinder head gaskets. Primary dependence had to be on local production with possible minor relief from Lend-Lease and therefore on a highly restrictive allocation.

Parts scarcity continued until virtually the end of the war, despite the cutback in Service demand for parts and in the use of workshops for Munitions in the last two years. Even though this released workshop capacity and materials, manpower of the appropriate skill continued to be almost unobtainable. Thus in 1945 manufacturers of batteries, the largest being in New South Wales, needed only seventy skilled men to use capacity fully, but could not obtain them. There was abnormal demand in the later part of the war for engine valves, apparently because adjustments to minimise petrol consumption resulted in excessively high engine temperatures.

Greater than difficulties in the supply of new spare parts were those in servicing, repair and reconditioning. Manpower had selectively protected some firms from early 1942, but since these decisions were made regionally there were inevitable anomalies, highlighted at the third War Road Transport Committee meeting in September 1942. A comprehensive survey of the manpower situation in the automotive industries followed, but the time required for the survey meant that it was July 1943 before the Manpower Directorate approved comprehensive manpower protection. Then 228 tyre retreading and repair workshops, as noted above, were protected, as were 2,220 motor vehicle repair workshops; and 331 key parts workers had call-up deferred. The distribution of the motor

[2] Automotive Spare Parts Order No. 2, 2 Jul 1943.

vehicle repair workshops is some indication of where the strain was being felt.

Protected Motor Repair Workshops
July 1943

	Country	Metropolitan	Total
New South Wales	553	268	821
Victoria	377	136	513
South Australia	143	78	221
Queensland	315	72	387
Western Australia	134	79	213
Tasmania	58	7	65
Total	1,580	640	2,220

Thus the high figure for rural Queensland was related to the concentration of Service personnel and war activity in that State, where the Services made substantial use of civilian facilities for service and repair of their vehicles. In rural New South Wales and Victoria an additional factor was the competing demand for skilled labour from munitions factories; of the 12 munitions factories in operation in country towns in mid-1941 only one (in South Australia) was not in New South Wales or Victoria; eighteen months later the figures were 29 out of 37.[3]

Apart from the competing demand from factories designed to produce munitions, there was extensive use of motor workshops for production or finishing of munitions components. Components and spares for machine-gun carriers and many other munitions items could be handled in these workshops by the small groups of men and the equipment available there: during 1942 some £500,000 worth of such work was obtained from 380 country motor repair shops scattered throughout Victoria, with lesser amounts in New South Wales and South Australia. Well-based complaints were that trucks used on essential transport stood idle because repairs had to wait on the completion of munitions contracts.

Coincidentally the July 1943 Manpower decisions protecting repair workshops were followed by a more comprehensive review of transport manpower needs as a result of War Cabinet directives for review of war commitments and reallocation of labour. In August Clapp started assessment of transport needs for additional men, with the following outcome:

	New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Total
Railways	400	256	115	165	20	24	1,024*
Road Transport	220	191	487	61	291	15	1,265
Trams	402	110	100	216	30	16	874
Total	1,022	557	702	442	341	55	3,163

* Including 44 men for Commonwealth Railways.

[3] This figure includes four not yet built.

Of the total of 1,265 sought for road transport purposes, 685 were for the running of essential services such as heavy cartage in metropolitan areas and movement of primary produce; 100 were for motor repair and servicing in Queensland; 187 were for tyre reconditioning. Miscellaneous services such as ambulances and building of "austerity" buses accounted for 263.

Early in 1944 the War Commitments Committee approved nearly all these requests. Some, such as tyre reconditioning, were dealt with under other requests; there were some modifications in the detailed allocation because of revised requests. Overall, road transport was allocated somewhat over 1,000 additional men, and under the changed conditions most of these were gradually obtained.

But there was no great improvement in road transport; the increases were needed to avert further deterioration. The delays and inadequacies in vehicle maintenance of the past were now showing in an accelerating rate of breakdown of pool vehicles, in more extensive repairs becoming necessary to keep vehicles operating. During 1944 and 1945 these legacies of hard usage and inadequate maintenance absorbed more and more of available resources, a situation not fully corrected until long after the war ended.

CHAPTER 11

CONSUMER RATIONING

CONSUMER rationing had been canvassed in the later months of 1941, but not as a means of coping with shortages.[1] The desirability of consumer rationing had recurred frequently in the discussions of the Financial and Economic Committee. Consistently with its earlier foreshadowing of inflation, it was predominantly concerned with rationing as an instrument for restricting total consumer spending so as to free productive resources; towards the end of 1941 it had shifted its emphasis to the critical resource of labour. On the whole it was then disposed to reject arguments that rationing was required because of impending shortage of essential consumption goods. That conclusion would have required revision a few months later; but the Financial and Economic Committee was virtually in suspense in the early part of 1942 and had little part in the introduction of coupon rationing, although, of course, individual members did, and would have been influenced by the earlier discussions.

The Capital Issues Advisory Committee[2] in February was urging rationing as a means of limiting the rise in retail trading with which they had become increasingly concerned. Similarly in April the Commonwealth Bank Board was pressing that rationing should be expedited because, in its view, the rapid rise in government spending was building up inflationary pressure. But already thinking of rationing in relation to such problems had been overtaken by events. Impending serious shortages of essential civilian goods was to be the effective driving force.

As had been noted earlier, the Production Executive at the end of January created an inter-departmental committee on "control and rationing of supplies".[3] But this represented, in part, final action on a move which had originated with the Economic Consultant for co-ordination of the various restrictions on supply which were multiplying fast. "Rationing" was described as rationing of materials, and full-scale consumer rationing does not seem to have been contemplated. Certainly the committee saw its task in the older form, for its report a fortnight later[4] was primarily concerned with having the Department of Trade and Customs recognised as the authority for "control and rationing of supplies for civil use" and did not refer to rationing of consumers at all.

But events and opinions were moving rapidly. As the tale of military disaster grew and the risk of invasion loomed, as the interruption to oversea shipping was more starkly defined, and as cuts in civilian activities followed fast, it was clear that consumer rationing might be inevitable. It had been evaded as unpopular, not accepted as a weapon

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[1] Butlin, *War Economy 1939-1942*, pp. 469-74.
[2] This had, in November 1941, replaced the earlier Capital Issues Advisory Board.
[3] Production Executive Agendum 5/1942.
[4] Production Executive Agendum 8/1942, 13 Feb.

against inflation, and disregarded as a means of releasing labour; now it presented itself as perhaps the only equitable way to share sharply curtailed supplies.

THE DECISION TO RATION

The Financial and Economic Committee meeting on 24th February turned to an item not on its agenda, and noted:

> Cabinet has instructed the Customs Department to draw up a plan for consumer rationing, but, to date, Customs have no plan for immediate consumer rationing. The necessity to organise an efficient administration to carry out consumer rationing is urgent. There is only 7-8 weeks supply of tea in the country.

The appointment of a "Director of Emergency Supplies" was proposed, with a first duty of preparing an administrative organisation. The discussion closed on the theme: "The main issue is: should we ration clothing?".[5]

At a meeting of the Production Executive on 26th February the issue was raised without prior submission, and the Minister for Trade and Customs was directed to report at the next meeting on "the proposed organisation and procedure for the rationing of supplies to consumers".[6]

That report, on 10th March, was so general that the Production Executive adopted the device used more than once to secure action from the Minister for Trade and Customs—that of associating another minister with the required action. Now the Ministers for Trade and Customs and for Supply and Development were instructed to "confer immediately and prepare a report for the next meeting of the Production Executive containing a complete plan for the organisation and procedure for consumer rationing".[7] Planning was at least carried a stage further, for the Prices Commissioner and the Tariff Board conferred and produced the broad outlines of a scheme which, as it reached the Production Executive on 1st April, proposed:

(a) the Minister for Trade and Customs to "declare" goods for rationing;
(b) a Director of Rationing be appointed, assisted by an advisory board consisting of members of the Tariff Board, Comptroller-General of Customs, Prices Commissioner, and Commonwealth Statistician;
(c) coupon rationing in certain cases;
(d) local government bodies to be used for distributing ration books.

Meanwhile, since the conference on 14th-15th March, the Tariff Board had been working on details and a report of 25th March to the Minister for Trade and Customs embodied the results of their labours. It was the view of the Board that rationing should initially cover tea (which was already the subject of simplified rationing), matches, clothing, tobacco and cigarettes, confectionery and entertainment. The tobacco group reflected the desire of Copland, the Prices Commissioner, to have adopted a scheme of restricting "luxury" consumption (on a weekly value basis), a scheme with which he persisted for some time. It was not accepted, mainly because of its administrative complications; as supplies were reduced consumers

[5] Minutes 24 Feb.
[6] Production Executive Decision 22.
[7] Production Executive Agendum 29/1942, 10 Mar.



HER LETTER TO HER SOLDIER.

"Milk's rationed, meat's dear, I can't buy fish or fruit and the bakers are on strike. Wish we were with you!"

Scorfield in Bulletin *(Sydney), 24 Mar 1943.*

were left to take their chances. "Clothing", said the Board, "would be difficult to handle. Some time is required to devise a workable scheme." Tea was an obvious choice, but matches less so. They were becoming less plentiful but were never actually short; in the end, months later, the Army was induced to modify its somewhat generous scale of ordering for canteens supply, and formal rationing was avoided. Rationing scales for matches, while not impossible to devise, were not obvious; the Board, however, was very persistent, and a few weeks later when it more or less "ran away" with preparation of ration books it was only with difficulty restrained from having a page of coupons printed with the word "matches".

The Board's view was that rationing of tea and matches could start as soon as books were distributed, and it urged that this be done, leaving clothing and other commodities to be added later if necessary. It did not expect the list to be long; a book of five pages, one for tea and one for matches, would in its view suffice. The remainder of its proposals—distribution of books through local government authorities, instructions to traders and consumers, and the like—were unexceptionable, save for one point. The Board did not take into account public reactions to inevitable knowledge of these preparations. Had they been a year, or even three months, earlier, with no mention of any specific commodities, it might have been barely possible to prepare the machinery and distribute ration books without convincing consumers that any or all commodities in short supply would be rationed, and without thus starting a rush to hoard while the machinery was still being prepared.

The Production Executive made several significant changes in the proposals of the Minister for Trade and Customs.[8] First it withheld from the Minister the power to determine what goods should be rationed; second, it even denied him the authority to make recommendations on this head, directing instead:

(i) the determination of goods for rationing be a matter for the Production Executive;

(ii) a Committee consisting of representatives of the Departments of War Organisation of Industry, Supply and Development, and Trade and Customs be responsible for recommending which goods should be rationed, the quantity or value of rationed goods to be distributed, the methods by which rationed goods shall be released, and the purpose for which rationed goods may be used.

The Production Executive also required that the detailed Tariff Board proposals be reviewed by the new inter-departmental committee, and decided that the Post Office should be used for ration book distribution.

This decision elicited an ineffective counter-move by Copland, primarily urging restoration of ministerial control. But it does not appear that the Production Executive paid much attention to his views,[9] instead it substituted for the advisory board already proposed, one consisting of three members of Parliament,[1] and pointedly underlined its opinion by directing:

[8] Production Executive Agendum 27/1942; Decision 45, 1 Apr 1942.

[9] Embodied in a letter to the Minister for Trade and Customs, 16 Apr 1942, circulated to members of the Production Executive.

[1] The name "Rationing Commission" was already in use departmentally.

"THE LIGHTS THAT FAILED!"



Armstrong in Argus *(Melbourne), 9 Sep 1942.*

the Minister for Trade and Customs, in collaboration with the Minister for War Organisation of Industry, to take the necessary steps to: (a) appoint a Director of Rationing; (b) obtain, through the usual official channels, the services of an experienced rationing expert from the United Kingdom.[2]

This last decision, and especially the final part, indicated the growing dissatisfaction with the administrative proposals coming forward from the Department of Trade and Customs, which meant specifically the Tariff Board and the Prices Commissioner. At the same time the final proposal suggested an assumption that there was still time to spare.

Meanwhile the inter-departmental committee[3] had made a rapid survey of what preparations had been made by the Tariff Board and for the need for rationing specific commodities. It brushed aside as not immediately urgent, and perhaps too difficult administratively, Copland's "luxury" group and the Tariff Board's matches. It found that the most alarming problem was clothing. The rapid expansion of the Forces and the need to meet substantial American demands were straining local production, which was facing serious labour difficulties; women, extensively employed in the industry, were moving, despite nominal restrictions, to better paid occupations. This phenomenon was a major factor in the policy of raising relative wages for women, embodied in the Women's Employment Regulations. But that solution lay in the future, and meanwhile production was suffering. Supply from abroad, especially of cottons, was drastically reduced, and the Division of Import Procurement gave the committee very gloomy forecasts of what would be forthcoming under Lend-Lease. The committee therefore urged that rationing be adopted for "all essential garments or substitutes . . . together with all materials which are, or might be, used for the production of rationed clothing". Rationing based broadly upon the principles in operation in England was recommended. The only other commodity proposed for immediate coupon rationing was tea, which was already the subject of a cruder form of rationing.[4]

It was this committee which first faced what was perhaps the major difficulty in the introduction of rationing: the impossibility of preparing its introduction secretly.[5] Every new shortage, real or apparent, reinforced speculation. Unfortunately the protracted Cabinet discussions of machinery arrangements encouraged the spread of belief in the imminence of rationing. Perhaps in the ordinary course a hundred persons would have seen, a Production Executive submission or decision and it was too much to

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[2] Production Executive Decision 47, 16 Apr 1942.

[3] This committee included the future Director of Rationing, H. C. Coombs.

[4] No formal report from this committee went to the Production Executive until June, although the report was completed on 15 May. On 9 June the Production Executive accepted the report except for explicitly excluding second-hand clothing; the Rationing Commission had already announced this as its policy. But events had been moving fast and, departmentally at least, the substance of the report had been accepted even before it took final shape on 15 May.

[5] This episode is discussed at some length partly because of its importance and partly because the Government was on this score the subject of sustained criticism and a good deal of public hostility in circumstances where any other course than that the Government followed would have produced the same results in more intense form. But it is also in somewhat extreme form an example of a recurring problem, that of introducing restrictions in the knowledge that, in many cases, the intention must become known to the future victims before the restrictions could be made effective.

expect that all would be discreet on this subject. Moreover, associated with the Cabinet discussions of machinery went canvassing of the appointments which would be needed.

Some part of the preparations could be conducted with limited secrecy, for instance the initial design of ration books. In fact, the Tariff Board had in April secured a supply of suitable paper, and prepared preliminary designs for coupon pages.[6] But a major printing job of this sort could not be put in hand in complete secrecy.[7] Office space had to be found for administration in each capital city, and its purpose could not be long concealed. Staff had to be recruited and trained. Finally at some stage business establishments had to be told what procedure was expected of them and the public told how to use coupons. All in all, it appeared that with maximum secrecy the best that could be hoped for was to begin rationing perhaps two months after its imminence was general public knowledge; any serious shortening of this period could only be achieved by abandoning any attempt at secrecy. The committee believed that two months was an optimistic estimate, for several Ministers were not convinced that rationing was unavoidable and, believing that it would be intensely unpopular, were pressing for delay. The outcome, it seemed, might be general public knowledge in advance of any effective preparations, involving both a serious dissipation of stocks (with consequently much more severe rationing) and an inequitable distribution of those stocks to the advantage of the well-to-do and of urban residents.

The committee accordingly decided to recommend that clothing sales be restricted by a quota system pending the introduction of coupon rationing. This implied public admission of shortage, if not of impending rationing, and to that extent created an urgent public desire to buy. But there was already a strong upsurge in precautionary buying; secrecy about rationing could not be maintained for more than another two or three weeks; meanwhile stocks were being depleted, and rationing preparations moving too slowly. The Production Executive adopted the proposal, which was:

(a) weekly sales of all clothing, manchester and related items to be restricted to 75 per cent (by value) of the amount sold in the corresponding week of 1941;
(b) retailers' purchases to be similarly limited;
(c) an immediate review of Service demands for clothing, including Army stock policy.

The case for this action was summarised thus:

(a) stocks of clothing are seriously depleted in practically all essential lines, and in some cases have reached danger point;
(b) sales are running at an extremely high level;

[6] The Board, with the laudable intention of doing in secret everything that could so be done, had already had the paper cut to a size imitating that of the Victorian Savings Bank passbook. This produced the result that the maximum number of convenient-sized coupons per page was fifty-six (seven rows of eight), and hence dictated allowing 112 coupons per year for clothing, a number which complicated the construction of the first clothing coupon scale.

[7] Illustrating the problem is the fact that an officer who attended an afternoon conference in Melbourne at which the basic design of the coupon book was settled, at midday the following day heard a Melbourne shop assistant's very accurate description of the book. Overnight technical advice on printing had been sought and a trusted printing office employee had told his fiancée the details.

(c) supplies from overseas have been severely reduced, and future supplies are very precarious;
(d) local production is quite inadequate to meet the total of Service demands as well as essential civilian demands.

Rationing by means of coupons cannot, for administrative reasons, operate for some weeks. Stocks will continue to fall during this period. Moreover, it will be impossible to maintain secrecy about the intentions of rationing for very much longer, and public knowledge will certainly produce a buying rush which will exhaust stocks, leaving nothing available to meet clothing coupons when they are issued.[8]

On Service demands, which the committee regarded as excessive in the circumstances, the Production Executive agendum said flatly that if these were not controlled it would be impossible to provide the essential minimum of civilian clothing.[9]

Outside the Production Executive a political decision was taken by the Prime Minister and his closest advisers, to make a virtue of necessity, and to announce not merely the clothing restrictions, but also the introduction of rationing as soon as administrative preparations were complete, for which a six weeks target was set. That way the ministerial advocates of delay would be totally routed; preparations could go ahead with the speed and efficiency deriving from the destruction of any need for secrecy. A rush to buy could be expected, but that was certain anyhow as more and more leakages of information occurred, and with clothing restrictions the rush could, at the cost of temporary inequity, be prevented from depleting stocks.

The Prime Minister discarded the cautiously phrased announcement prepared for him, and in a nation-wide broadcast[1] ensured, if any assurances were necessary, that the news would produce a buying rush. In ringing tones he told his listeners that restrictions on clothing sales were the prelude to rationing and, passing rather lightly over the "fair-sharing" purpose of rationing, he struck the impassioned note of "austerity" which from now on was rarely absent from his speeches: "I say to you quite flatly that regard will be given only to the minimum requirements of the civilian population. The Government is aiming at deciding not how little we can reduce peacetime essentials but to what extent we can maintain a bare minimum." He went on to elaborate in detail, contemplating a reduction in clothing purchases by one-half.[2]

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[8] Production Executive Agendum 38/1942, 21 May.

[9] Since later attacks on these restrictions assumed that the Minister (Department) for War Organisation of Industry was responsible, it should be noted that the submission was signed by R. V. Keane, Minister for Trade and Customs. But the Minister for War Organisation of Industry, as chairman of the Production Executive, necessarily took a prominent part (he announced the decisions, including the decision to ration, to Parliament on 8 May) and the public ascription of responsibility was fair enough in the sense that it located correctly the driving force sweeping aside the delay and hesitation which had thus far impeded all action.

[1] On 8 May, an hour before Parliament was informed (by Dedman). *Digest of Decisions and Announcements*, No. 28, pp. 16-20. Part of the purpose of this was to make finally impossible further delay by those Ministers who still wanted to avoid rationing—who were not consulted about the decision to announce it.

[2] There were a number of inaccuracies in Curtin's speech, perhaps because the officers whose draft was rejected were not further consulted. He said that "it was decided some time ago that clothing rationing would have to be introduced". Many advisers had expressed that view, but there was in fact no Cabinet decision to ration clothing; the only decision which had been consciously accepted was the clothing sales restriction adopted on 30 Apr, implementing of which had been resisted by some Ministers. "Wholesale and retail merchants, with whom the Government's plans have been discussed" did not support them; they gave lukewarm advice

Clothing shops were besieged with buyers, and, until coupon rationing took effect—weeks later—queues waited outside for each morning's opening, and the rush was maintained until "quota sold" notices terminated the day's trading—often well before the legal maximum had been reached, since every seller was conscious that his stock when rationing commenced would control the scale on which he could subsequently operate. Much inconvenience was experienced, and the limited quotas were inevitably distributed inequitably, but it is doubtful if any extensive hardship was caused.[3] There were, apart from the preservation of the shrunken stocks of clothing, two valuable results from the episode. A public which for the first time experienced briefly but acutely the meaning of shortage without rationing, welcomed coupon rationing. The Services, whose clothing demands were being challenged, were converted to a tractable frame of mind.

CLOTHING

Meanwhile preparations for the actual commencement of rationing were pushed ahead. The administrative organisation adopted was that of a Rationing Commission of three members of Parliament,[4] with a Director of Rationing, H. C. Coombs, as its chief executive.[5] The printing arrangements initiated by the Tariff Board were hurried forward, the Government Printer of each State being employed to print books for his State. Staff were hastily recruited, and arrangements for issue of books by the Commonwealth electoral organisation completed.

A difficult problem was determination of coupon ratings for garments. As a first rough guide the British scale was studied, but, apart from minor arithmetical problems occasioned by difference in the total number of coupons in each country, it could only be a rough guide. The scarcity of wool relative to cotton in England was reversed in Australia; climatic and other conditions modified the relative importance of different types of garments. (It was possible, for instance, to contemplate what was later realised: that under wartime conditions a large percentage of Australian women would dispense with stockings.) A draft scale with only remote resemblance to the British one was produced, in which the essential principle was that the coupons for each person should cover the clothing regimen recognised by the Arbitration Court in its basic wage determinations. At this stage it appeared that materials, especially cotton, would be scarce, and it was felt that the political significance of the basic wage regimen would provide a defence against criticism of coupon ratings. However, estimates of the yardage of materials required to provide this

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against the clothing restrictions; they did, however, endorse the opinion that immediate and drastic action was required to prevent clothing stocks being exhausted, and their attitude could have been understood as hoping the Government would go ahead, while being on record as not approving of the action.

[3] When the coupon rationing began on 15 June 1942 clothing sales were low. The Director of Rationing that morning walked to his office through several of Melbourne's largest department stores, and was relieved to find no rush to use coupons; the experience was general. Those in urgent need of clothing had either managed to buy despite the rush, or they had been small in numbers.

[4] A. W. Coles (chairman), Senator J. I. Armstrong and W. V. McCall; appointed on 14 May.

[5] Replaced by J. B. Cumming, Jan 1943.

modest yearly supply of clothing to the Australian population exceeded estimates of what actual supplies were expected to be. (As it turned out, the Division of Import Procurement was unduly pessimistic about cotton from America, but this did not account for the whole deficit.) Moreover, it was recognised from the outset that various special issues of coupons would have to be made, that coupon ratings would have to be reconsidered in the light of experience, and that, therefore, the quantities covered by the general coupon issue must be kept below foreseeable supplies. Accordingly the coupon ratings of the draft scale were increased, so that less than the basic wage regimen could be bought with the general issue, a fact which did not escape the hostile attention of the newspapers when the scale was announced. The newspapers, which had maintained a fierce fire of criticism since the disclosure of rationing plans, which they insisted was premature, saw in the scale only niggardliness, and refused to admit the reality of the shortage which would have been less if rationing had been introduced earlier, and would have been worse with any further delay. In fact the majority of people had a stock of clothing which would enable them to carry on without hardship—for perhaps as much as two years, the officers who prepared the scale estimated.

Regulations governing the rationing system were gazetted on 14th May,[6] and 15th June was set as the target for the first use of coupons, a target which was met to the great relief of everyone responsible for the scheme, although there were some elements of makeshift involved—for instance on that date the staffs of State offices were somewhat sketchy.[7] The coupon scale was published on 13th June, a short time before the general issue of ration books was completed to each holder of a civilian registration ("identity") card. Such persons found themselves in possession of an eight-page book, the first page with coupons labelled "tea" and the others with various numbers of coupons.[8] Books for children under nine years had the "tea" page removed before issue. In general, persons not holding civilian registration cards were members of one of the Services, or of an organisation such as the Civil Constructional Corps or in an institution. (An exception, at first overlooked, was aboriginals employed in country areas for whom special arrangements had to be made.)

For classes of people not holding civilian registration cards rules were made according to circumstances. A member of one of the Services which provided food and basic clothing, for instance, received no coupons. If the Service did not provide all clothing (for example for officers), a special issue of coupons was made. Where an organisation provided food but not clothing for its members (as the Civil Constructional Corps)

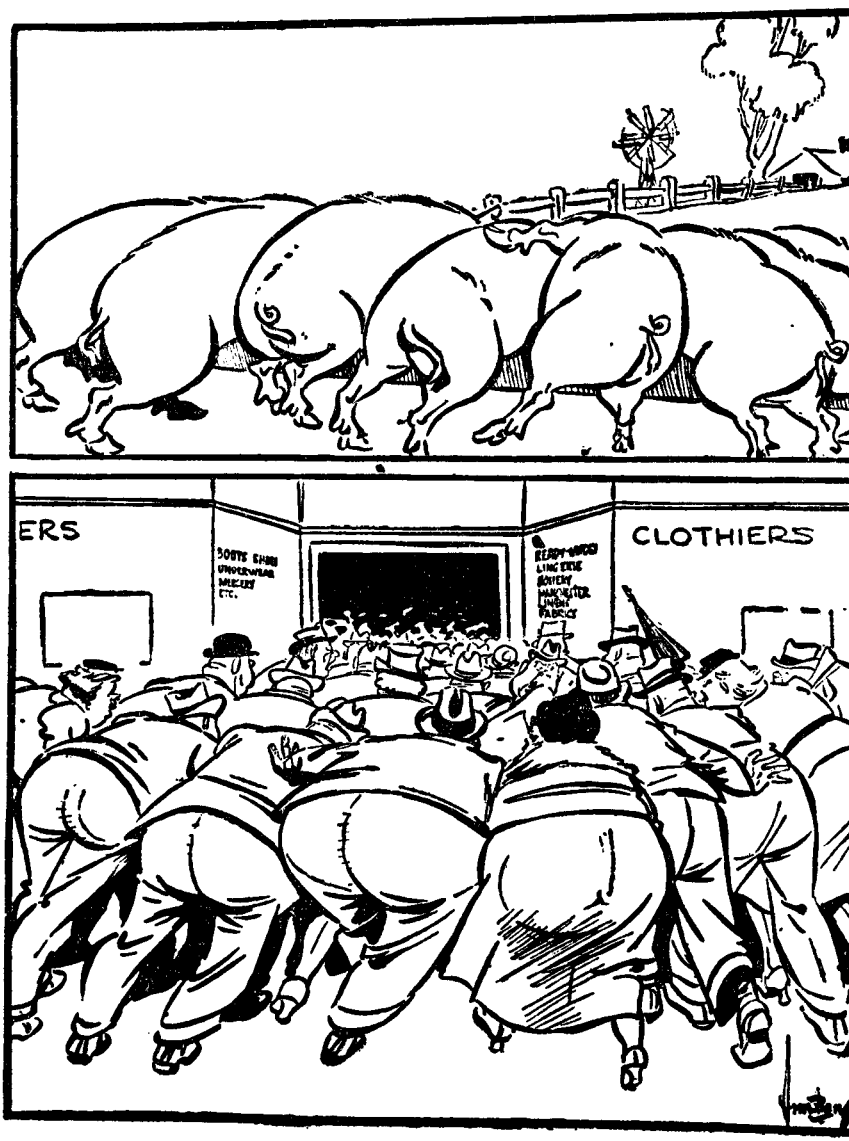
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[6] Statutory Rules 1942, No. 228.

[7] The Commission's history as written and documented for Commonwealth Archives is an exemplary piece of work, but the only figures for staff begin at 30 June 1943, and there are therefore none to indicate the numbers in early weeks and months. That staffing in the early period was a major problem is stated categorically by, for example, the South Australian records, and in general there is reference to it in all States and the "central" administration's records.

[8] Pages "G" and "H", with fifty-six coupons each, were for clothing. "G" coupons only could be used in the first six months, but they and "H" coupons were both available in the second six months.

"AROUND THE TROUGHS!"



Armstrong in Argus (*Melbourne*), *12 May 1942.*

members received clothing coupons but not those designed for food. There were many variations in detail, but the general principle was obvious enough.

Over the next weeks the Commission worked under pressure not only making administration adequate, but developing principles for the multitude of cases not properly covered by the simple principle of a coupon ration for every civilian. For some purposes supply without coupons was the obvious solution, provided safeguards could be established; in this group fell prisoner-of-war parcels, Red Cross and Canteens Fund purchases which were destined for members of the Services.

A second group of problems concerned interpretations of the coupon scale. There were, for example, problems of compelling retailers to abide by the definition of garments. (Calling coupon-expensive articles by names of remotely similar garments which cost fewer coupons was an example of a form of evasion.) "White elephant" goods, that is those which proved unattractive to consumers, were handled by permitting (with safeguards which included low relative prices) half-coupon ratings for them.

One such set of problems was important enough to rank by itself: that concerning industrial clothing. To some extent this problem could be met by exempting forms of industrial clothing (for example leather work gloves) which had no normal clothing use. Further help was given by providing special low coupon ratings for overalls and similar garments, but action along this line was limited by the fact that such work clothing might in practice act in varying degrees as a substitute for ordinary clothing—the policeman's uniform for instance. In principle the solution in such cases was to provide that coupons must be paid for clothing of this type, at rates which represented rough and ready judgment of the extent to which ordinary clothing was economised. This implied relatively low coupon ratings for, for example, uniforms, which meant the Commission had to be restrictive in the classes of uniforms which it recognised. The third method of meeting the problem of work clothing was to provide special small additional coupon issues for workers in occupations in which wear and tear on clothing was severe.

This last device illustrated the principle adopted to deal with cases of special need. Expectant mothers, people whose clothing had been accidentally destroyed (for example by fire), people discharged from the Services, civilians evacuated from battle zones, and various other groups, were handled by special coupon issues over and above the standard issue. One such problem was for some weeks the chief source of criticism of rationing in operation: "out-size" children often needed adult-sized garments which carried higher coupon ratings. Delay in providing special issues arose from the problem of designing methods of verifying claims which, of necessity, rested on differences in degree, but this source of complaint was removed fairly promptly.

Behind the retailer-to-consumer use of coupons were a host of other problems. Control to ensure only legitimate use of coupons required that all anterior dealing in clothing or in materials from which rationed

clothing was made should be against change of coupons. In other words there had to be a flow-back of coupons through retailer, wholesaler, manufacturer, importer, ultimately to the Commission itself. This entailed the handling of vast numbers of coupons, detailed counting and checking of which was impossible. For a time the Commission explored the possibility of "coupon-banking" in the full sense that traders might have had bank accounts in coupons as well as in money, but this proved impossible to arrange, although the banks were used for safe-holding and transmission of coupons in bulk. Of necessity checking of coupons returned in quantity from traders had to be by sampling.

The flow-back of coupons implied that traders must have a working capital in coupons. For instance, at the outset all coupons were in the hands of consumers and retailers could not delay wholesale purchases until after they had sold stock to acquire coupons. The solution, initially, was a period of grace during which "normal" trade purchases did not require coupons. This equipped all traders with a coupon "working capital" which, however, was related to the volume of business being done in the recent past. Consequently many traders pleaded peculiar circumstances which had kept their trade and stocks abnormally low, an argument which the Commission could accept in principle but could admit only narrowly in specific cases.

Such problems took time to solve, and most of them could only be solved after the initiation of rationing. But they were, in general, solved in the sense that grumbling never became effective criticism and that evasion and dishonesty, while they were widespread, never threatened the effectiveness or general equity of rationing. This was a considerable achievement, for rationing implied a severe reduction in conventional clothing standards. From the yearly ration of 112 coupons (of which only half were available in the first six months) an adult had to purchase items at such ratings as these:

Men's three-piece suit: double breasted	42	coupons
single breasted	38	„
Raincoat, overcoat (men's)	40	„
Shirt without collar	12	„
Pyjamas	15	„
Shoes	12	„
Women's two-piece costume	29	„
Frock	13	„
Raincoat, overcoat (women's)	27	„
Stockings	4	„

In part because of the restriction on consumption involved, it was felt that rationed clothing should be advertised as little as possible; consumers who felt the coupon restraint severely, it was feared, would react by increasing hostility to rationing if the goods they could not buy were dangled before them too attractively. On the other hand, advertising of a "purely informative" character ought to be allowed. That demanded precise definition. The Commission was given power to prevent undesirable advertising, but the problem of definition proved virtually

insoluble. Over a long period observers enjoyed a duel between the ingenuity of advertising experts and the Commission's draftsmen, each new formula by the latter being countered by an advertising device which was within the letter but not the spirit. The net effect was probably to make the advertising of clothing far more effective, as advertising, than that had ever been before.

When clothes rationing began the statistical knowledge available—mainly local production and imports, and at that, neither very detailed nor very recent—required decisions to be made on the basis of a good deal of informed guessing. More detailed and more up-to-date figures of local production and imports needed to be supplemented by knowledge of stocks and reliable estimates of local production and overseas supplies of garments, piece goods and drapery. A preliminary survey of stocks on the last day of 1942 was followed by a more comprehensive "census" in July 1943, which enabled the Commission to decide what information would be useful and from what traders it should be collected. Until a second census the Commission could only estimate how the public would distribute their coupons; with the second census there was a firm basis for making projections of future demands.

Import data were obtained from traders except for American imports, for which the Division of Import Procurement was the source. Information on Australian production was derived from coupon recovery from manufacturers. During 1942 the Commission was feeling its way. They were aware of a shortage of cotton goods, and when expectations of remedy through Lend-Lease faded, secured Division of Import Procurement sponsorship for the import of 6,000,000 yards of the most urgently needed materials from India. In 1942 there was also shortage of woven woollen cloth and of men's and children's footwear, not for lack of material but because of inadequate manufacturing capacity to make up for former imports. This illustrated the co-operation which developed between Rationing and the Department of Supply, the Commission keeping the Department informed of actual or impending shortages of clothing so that the Department could attempt to promote supply. By June 1943 the Department had appointed a Director of Clothing and Textiles responsible for major items of clothing for the Services, civilians and export.

Overseas supply remained precarious during 1943, especially of cottons. The major source of projected supply was the United States of America from which deliveries were not expected before June. India, which had filled the gap in 1942, was no longer a sufficient source, since not only was the quota of Indian exports available to Australia sharply reduced but importers were reluctant to purchase because of unpredictable quality. In the event supplies were inadequate in the first half of the year and surplus was forecast for the second half. Beyond 1943, however, these difficulties largely disappeared. Close co-operation between the Commission, the Department of Supply and the Division of Import Procurement meant that local manufacturing and imported supplies could be managed so as to meet ration demand.

There was not like success with distribution, where the Commission had effectively only an advisory function which could not overcome the reluctance of manufacturers, wholesalers, importers and retailers to change established distribution methods and relationships. Only once did the Commission directly control distribution: in 1942 supplies, released by the Army and from stocks originally produced to Eastern Group Supply Council orders, were taken over by the Commission and because these included scarce items which should go to the highest priority uses the Commission became involved in directing distribution through established trade channels so that this objective would be achieved.[9] The chief distribution problem which plagued the Commission was that of ensuring that particular areas were not denied supply while elsewhere retailers had more than adequate stocks. The normal trade processes tended to favour the large State at the expense of the small, city at the expense of the country, the large retailer at the expense of the small. Thus in 1943 the Commission had to organise a formal conference of manufacturers of towelling to secure agreement to distribution of "fair" percentages of output between States. Through the Division of Import Procurement it could guide distribution of Lend-Lease cotton supplies between States. Various schemes for more comprehensive direction of distribution of supplies on an area basis were canvassed but the trade was invariably hostile to any suggestions for either reorganisation of distribution or control, and the best that could be achieved was a voluntary system under which manufacturers and wholesalers agreed (December 1943) to adjust local supplies when notified through the Commission of localised surpluses and deficiencies.[1]

TEA

Meanwhile the Commission, having launched clothing rationing, took over tea rationing. In place of the crude and comparatively inefficient system that had operated since 1st April 1942, coupon rationing was instituted from 6th July. Under the April scheme nominally each person over nine years was entitled to one ounce per week; under coupon rationing to 1.6 ounces. The latter figure was the result of making four tea coupons available every five weeks, a coupon being worth two ounces. Since tea was usually sold in pound and half-pound packets, making each coupon worth two ounces and releasing them for use in blocks of four was convenient; it meant in practice that variation in the ration allowed would be implemented by adjusting the period at which coupons became available. A small addition to the ration became possible almost at once, as tea supplies from Ceylon became more secure; from 19th October four coupons were released every four weeks, that is the weekly ration per head became two ounces.

Over preceding months the scarcity of tea had encouraged many Australians to turn to coffee which had not been a widely used beverage,

[9] Thus military boots ordered by EGSC, being black, were not wanted by the Australian Army. They were suitable as work boots, and being made with brass screws were especially suitable for use such as in Western Australian coal mines at Collie where corrosive conditions existed. It took six weeks to ensure that the boots were so distributed.

[1] Exploration of the problem recorded in Rationing Commission meetings Nos. 20, 22, 37, 48.

and which, according to many visitors, Australians did not know how to prepare. But in 1942 coffee became very scarce, because of shipping and exchange restrictions, and its use ceased to be an effective alleviation of the tea shortage. One curious result was the appearance on the market of various more or less palatable coffee substitutes, such as ground roasted grains, for instance wheat.[2]

However, while tea rationing did restrict consumption, it was not severe enough to impose hardship even on a community in which tea was so widely consumed as Australia. Imports of tea in 1937-38 had been 45,300,000 pounds, with a total population of 6,900,000. In 1943 consumption was 38,300,000 pounds, for a civilian population over nine years old of 5,400,000.[3]

Administration of tea rationing was much simpler than clothes rationing since it involved a single virtually standardised commodity. Special arrangements had to be made (by permits to buy) for catering establishments, for hotels and similar establishments providing short-term accommodation, and for many similar situations. Coupons flowed back through trade channels, ultimately reaching the Tea Control Board which continued throughout the war to act as sole importer and initial wholesaler.

The import of tea was based on a quota system devised by the British Ministry of Food which could effectively control supplies almost all of which came under war conditions from India and Ceylon. Allied countries were to be allowed 75 per cent of the average imports of the period 1938-41 and neutral countries 50 per cent. This would have allowed Australia 34,000,000 pounds a year, but as the figures quoted have shown, actual supplies throughout the rationing period were consistently higher.

Supplies of tea in fact became embarrassingly abundant. By November 1942 civilian stocks were equivalent to five months supply, and the Services had excess stocks which they proposed to return. Various rations —for catering establishments and industrial canteens—were quietly increased. The situation was indeed paradoxical: Australia, under standing contracts, was entitled to 45,000,000 pounds for the civilian market and 10,000,000 pounds for the Services, up to March 1943, and rationing had been based on the assumption that under the Ministry of Food quota scheme supplies would thereafter be limited to 34,000,000 pounds. Suggestions that imports should be reduced were rejected by the United Kingdom, concerned about the disastrous effect on Ceylonese and Indian producers. Stocks could not be held indefinitely without becoming

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[2] One of the most remarkable was "banoffee" (ground roasted bananas) offered by a Melbourne shop: "cannot be distinguished from tea, coffee or cocoa".

[3] Imports of tea prior to the war and the fall of the Netherlands East Indies were:

1937-38	45,300,000 lbs	(population 6,900,000)
1938-39	49,600,000	
1939-40	50,300,000	
1940-41	50,300,000	

Tea consumption after introduction of rationing was:

		Civilian population over 9 years
1943	38,300,000 lbs	5,400,000
1944	43,000,000	5,480,000
1945	43,000,000	5,500,000
1946	47,900,000	6,500,000 (over 6 years)

Source for both sets of figures: the "history" of the Rationing Commission.

unusable. Unexpectedly, moreover, supplies of coffee, instead of being permanently reduced, were increasing. It seemed as if the only purpose of rationing had become that of insurance against interruption of supply, a risk which was already becoming less. The outcome was a decision to import 45,000,000 pounds in the year after March 1943, including 5,000,000 pounds for the Services (from which the Tea Board refused to take back excess stocks).[4]

By the end of 1944 stocks had risen to such an extent that wholesalers were evading ration control and there was general pressure either to abolish rationing or to increase ration allowances. The United Kingdom stiffly resisted suggestions for "de-rationing", being apparently concerned about the forecast inadequacy of supplies for post-war demand, while the Australian Treasury was insistent that rationing must be maintained while subsidies were being paid under the price stabilisation scheme. The Treasury conceded relaxation in rationing by more generous treatment of special cases, provided this did not increase price subsidy payments by more than £30,000. Thus the odd position existed from the beginning of 1945 until 1947 that Australia was rationing a commodity of which it had excess supplies partly because of its own concern about the financial cost of price stabilisation (the alternative of higher prices for tea was unthinkable), partly because of British fears about future world shortage.

SUGAR

Initially a dominant reason for rationing sugar was fear that supplies would be inadequate for local consumption. Production was concentrated in Queensland in coastal areas, vulnerable to enemy attack; transport south was increasingly difficult; labour available had been seriously reduced and could not readily be replaced since the need was primarily for fit adult men; appropriate fertilisers of which heavy usage was necessary to maintain productivity were in short supply. Storage facilities, particularly for raw sugar, were mainly in the south, not on or near the canefields. There were increased demands for exports, particularly from the United Kingdom and these in the event became the chief reason for continuing rationing. Production did decrease under the impact of labour and fertiliser shortage, but transport and storage difficulties, though real, were less than expected.

Sugar Production[5]

	(tons)
1938-39	822,000
1939-40	928,000
1940-41	806,000
1941-42	746,000
1942-43	649,000
1943-44	523,000
1944-45	699,000
1945-46	661,000
1946-47	552,000

[4] Meetings of Commission, 17 Nov, 10 Dec 1942, 7 and 25 Jan 1943.
[5] *Commonwealth Year Book* figures.

Average production for the five years ending 1940-41 had been 803,800 tons which had been divided between local consumption 368,400 tons, and exports 435,400 tons. Prior to the introduction of rationing the position for 1942-43 was forecast:

Current production	643,000 tons
Stocks	25,000 „
Total supply	668,000 „
Consumption	403,000 „
Required for stocks	50,000 „
Available for export	215,000 „

Local consumption had been 379,000 tons in 1940-41. The increased estimate was based on population increase. For 1942-43 estimated usage was:

Individual consumption, rationed scale (one per per head per week)	157,000 tons
Services	24,000 „
Manufacture	142,000 „
Emergency stocks	22,000 „
Distilleries	58,000 „

The proposed individual ration of one pound per week was considered (and proved to be) quite adequate. It was above consumption in the United Kingdom, United States of America, New Zealand and Canada, and even though in mid-1942 Australian consumption had risen to 2 pounds a week because of panic buying compared with 1½ pounds a week in earlier months. The level of stocks had become dangerously low, being by the end of August 1942 only 3½ weeks supply in Sydney, 2½ weeks in Melbourne and 2 weeks in Fremantle. Accordingly sugar rationing was introduced in August 1942.

This was primarily rationing of individual consumers, at the rate of one pound a week supplemented from time to time by special issues described as being for jam-making. Manufacturers, caterers and the like were controlled by a system of permits; in practice during 1942 and 1943 this was a formality since the applications were met in full, although from the beginning of 1944 commercial sugar users were allowed the amount of their actual 1943 usage on a monthly basis with discretionary increases in special cases. An exception was the use of sugar to produce industrial spirit and power alcohol, handled by Trade and Customs outside the normal rationing administration. Production of power alcohol and wet alcohol from sugar for use as motor fuel was prohibited from January 1944.

Almost immediately after the introduction of rationing prospects improved. Coastal shipping proved to be more readily available; except for some attacks on individual ships, enemy action did not develop. Raw sugar stocks grew so that by December 1944 Sydney had enough to satisfy the refineries for fifteen weeks.

BUTTER

Rationing of butter was designed even more explicitly to ensure exports to Britain but posed very different problems of control. There were between 400 and 500 butter factories and over 100,000 dairy farms, with wide variation in size. Control was further complicated by farm butter, that is butter produced on the individual farm, the importance of which varied greatly between States. In New South Wales, Victoria and Queensland, official returns put it, before rationing, at between 2 and 4 per cent of total supply, but estimates for other States were: South Australia 14 per cent, Western Australia 10 per cent, and Tasmania 20 to 25 per cent.

Plans developed in October 1942 contemplated rationing from January 1943. Production for 1942-43 was estimated at 190,000 tons and it was proposed to allow an individual ration of eight ounces a week, with any surplus over this consumption and Service orders being exported. (Margarine production, which was restricted by government policies designed to protect dairy farmers from competition, could not be enlarged because of material shortages.) However, Britain notified reduction of its needs by between 20,000 and 30,000 tons and as production prospects looked brighter rationing was deferred.

By April 1943, however, conditions had changed markedly. Production was in fact falling sharply because of loss of labour and consequent reduction of herds; the United Kingdom now asked for 70,000 tons of butter for the coming season with any quantity of cheese available. Production was now expected to be 145,000 to 160,000 tons and Service demand 15,000 tons during the 1942-43 season, so that supplies to the United Kingdom would fall short by 23,000 tons, and for 1943-44, without rationing, a shortfall on exports of up to 35,000 tons was forecast. Major reliance for averting this was placed on plans for higher local prices and preferential supply of machinery and fertilisers.

But it was also decided that rationing must be introduced so that the forecast export deficiency would be reduced to 10,000 tons and the decision became effective on 7th June 1943. The basic ration was eight ounces per head per week (regardless of age) with restricted allowances to caterers and cuts in the supply of cheese and condensed milk to the Australian market. With continuing manpower shortage and drought reducing production the basic ration was cut in June 1944 to six ounces a week.

There was a great deal of evasion of butter rationing. The administrative procedures provided for coupons to flow back through the trade in exchange for supplies, for convenience in sealed envelopes carrying a certificate of the number of coupons, certificates which could be false.[6] Farm butter was a loophole to the extent that farmers could supply without coupons beyond their normal supplies to consumers in their immediate locality. Before rationing, farm butter was estimated at 10,000 tons a year; under rationing, official farmers' returns showed it as about

[6] A 1945 Rationing Commission estimate was that 9,000 tons of coupon-free butter was sold through false declarations by retailers.

1,000 tons. While farm production of butter was discouraged, it is implausible that it was so reduced; the more obvious inference is that it was not reported, and contemporary allegations that its production increased may have been justified.

Initially, hospitals, institutions and industrial users of butter were allowed 80 per cent of the pre-ration usage and catering establishments 65 per cent.[7] In July 1944 these allowances were reduced by a quarter, and manufacturers' and caterers' allowances were held at these levels until rationing was abolished.

Production fell sharply, especially during 1944 because of drought in northern New South Wales and Queensland, and shortage of feedstuffs and labour. But the reduction of civilian consumption by rationing made it possible after 1942-43 to meet a high proportion of the United Kingdom demand. Australian consumption was reduced from 96,000 tons in 1942-43 to 86,000 in 1943-44 and to 72,000 in 1944-45. Exports to the United Kingdom were 42,000 tons in 1943-44 and 37,000 in 1944-45, with a further 5,000 tons in each year to other countries. The original allocation to the Ministry of Food for 1943-44, for example, had been 46,100 tons. Much more than with sugar, therefore, butter rationing was a direct contribution to maintaining export to Britain, essentially because it did genuinely curtail Australian consumption.

MEAT

Meat was the last item to be coupon-rationed. Late in 1942 this was being seriously canvassed as an immediate possibility, but deferred because of major uncertainties. Estimates of production for 1942-43 put output of all meats at about 940,000 tons with Service demands and exports forecast at 410,000 tons. Unrationed civilian demand was calculated as 650,000 tons, so there was apparently a deficiency of up to 120,000 tons in prospect, which would, in the absence of control measures, fall on exports to Britain. But there were major uncertainties about exports. There had been increasing American demand for canned meats, but there was no secure knowledge about future orders. Refrigerated shipping for exports to the United Kingdom appeared precarious, so that at that period there seemed equal likelihood of deficient supply and local glut beyond storage capacity. In the light of the opinion of the Meat Industry Commission and the Meat Controller (who did much of the work preliminary to rationing) decision was deferred. But in 1943 a Meat Industry Committee foreshadowed even more serious shortage, between 180,000 and 220,000 tons for 1943, and exploration of rationing procedures was intensified, a points scheme for different types and qualities of meat being favoured at this stage. The Production Executive endorsed rationing in principle and delegated to a committee (representing Commerce and Agriculture, Supply and Shipping, the Rationing Commission,

[7] Hotels could supply meals without requiring surrender of coupons from any guest unless he stayed more than six nights in any fortnight.

and War Organisation of Industry) the task of designing rationing procedures and scales.[8] Meanwhile in the latter half of 1943, the Rationing Commission was busy preparing advance publicity about meat shortage designed to accustom consumers to the idea of rationing, and, optimistically, to be an instrument for restricting consumption in itself.

Some control over consumption was already exercised by the Meat Controller. From all slaughterings 15 per cent was reserved by him for export to the United Kingdom and to supply Service demands, and the remainder was allocated to the trade on a quota basis. It was contemplated that this 15 per cent should become between 25 and 33⅓ per cent, in which case equity would demand civilian rationing; the United Kingdom added its voice since Australia was having difficulty in meeting orders.

Rationing on a value basis was rejected because of the wide geographical range of retail prices. A points system, at first favoured, was discarded because effective administration required limiting the consumer's choice of butcher and it was regarded as too vulnerable to evasion. Final decision was for a base ration of 2¼ pounds per adult per week (with actual consumption depending on the choice of cuts of meat by the consumer) and, nominally, half-ration for children aged under nine. It was half-ration only nominally, since with the pattern of ration book then on issue there was no way of distinguishing the coupons used for meat from an adult's and a child's book.

So far as the final consumer was concerned, the use of coupons operated in the same manner as for clothing with differential coupon ratings for different types and cuts of meat. The ratings discriminated between types of meat, for example to encourage consumption of mutton and discourage that of veal. They were also intended to induce demand for different parts of the carcase in the proportions in which nature supplied them, which led to attempts to promote standardised cutting practices among butchers.

Meat necessarily changed its form on the way from the slaughterer to the retail butcher and controlling its movement by a flow-back of coupons, as with other commodities, dictated the use of a wholesale as well as a retail coupon scale. To simplify its operation the Rationing Commission pressed for reduction in the number of cuts and the adoption of a minimum range of standardised cuts for all meat supplied for civilian consumption. This was one of many matters of contention with the trade, in large measure because the Commission sought abandonment of traditional cutting procedures for less wasteful ones. This was a long dispute settled eventually by compromise, the Commission allowing wholesalers a coupon "discount" of 3 per cent. Coupons eventually flowed back to slaughterers who were required to make weekly or monthly returns of weights of meats produced to be accounted for in terms of coupons received. Here again there was much contention. The further removed from the retail end, the more opposed to rationing and the less co-operative was each section of the trade.

[8] Production Executive Agendum 45/1943. Decision No. 291, 13 May 1943.

Consumers accepted meat rationing more readily. Substitute foods were available and smallgoods—in particular pre-cooked meats and sausages—were rationed only by quotas to suppliers. These cushioned the effect of rationing and facilitated the sale in these forms of otherwise unsaleable meats. Consumers, too, learned to revert to the ways of their grandparents and use previously unpopular cuts such as mutton flaps, cheeks and hearts.

Over extensive lightly-settled parts of Australia rationing was not applied because the administrative problems, if indeed they would have been soluble, far outweighed possible savings, and because substitute foods were not available in these areas. These special meat areas included only two per cent of the total civilian population but estimates accepted by the Rationing Commission were that when account was taken of farm slaughtering, meat rationing affected only 90 per cent of the population. There were also some special allowances of coupons for medical reasons and for isolated workers, though these were not freely issued. Special permits for hospitals, catering institutions, hotels, industrial canteens and the like were handled as for other commodities.

There were two objectives in rationing meat. First was that of reducing overall consumption so that exports, especially to the United Kingdom, could be maintained, and second and consequentially, that of equitable distribution. The first purpose was not achieved during the first year of rationing. For the period preceding coupon rationing, when consumption was subject to quotas, consumption was estimated at 3.94 pounds per week per head; under coupon rationing it was 4 pounds. The precise accuracy of these figures could be questioned, and in particular it could be argued that with coupon rationing more comprehensive and more accurate data were available so that there would have been an inherent tendency to show nominal increase in consumption. But this did not resolve the marked contrast between an actual 4 pounds or so of actual consumption and a rationing target of an average 2¼ pounds.[9] It was apparent that restrictions would have to be tightened.

Allowances for smallgoods, merchant seamen's special permits, and caterers' allowances were restricted. In June 1944, for example, permits to supply smallgoods provided for only 75 per cent of the original amounts. Reasonably, it was expected that the issue of new ration books in that month would achieve considerable savings since these were of a revised pattern which would prevent purchase with a child's book of full adult ration instead of the half-ration officially allocated to children aged under 9.

General cuts in rations, by modifying coupon scales, were not made until February 1945. The original target of 2¼ pounds was supposed to reduce civil consumption by 17 per cent. The new scale, with a target of 2.1 pounds, would have been a further 8¾ per cent reduction. Almost immediately, because of a bad season, there was a further cut, in May,

[9] Rationing Commission Agendum 548, meeting of 29 May 1944.

of 12½ per cent on individual rations, 25 per cent on caterers' supplies and 12½ per cent on industrial canteens.

These cuts and the effective control of children's rations did produce substantial reductions in consumption but official targets were never in fact attained. The non-standardised nature of the commodity and the changes in its form as it moved forward from the farm to the kitchen made control extremely difficult, and evasion at all stages was possible. These difficulties would have remained, but would have been less, had the trade been co-operative. But it was not. There was difficulty at every stage in securing information or ensuring that weights were checked. There was continual haggling about coupon recovery, and about catering and industrial canteen permits. Meat rationing had only moderate success with both its objectives.

Problems of evasion and difficulties of enforcement were common to all the commodities rationed by means of coupons. The Rationing Commission placed major emphasis on publicity for securing public co-operation, combining threats, and publicity for convictions, with persuasion. There was a constant stream of literature, films and radio broadcasts to explain the reasons for rationing decisions, to appeal to patriotism and to show how much Australian rationing helped Britain. There was also a good deal of advice on how to make the best use of rations (especially meat) and on the use of substitute foods.

But there was nevertheless a good deal of evasion, on a scale which can only be guessed, and which provoked criticism based at least as much on suspicion and assumption as on knowledge. Breaches of rationing regulations were punishable under the general provisions of National Security Regulations by fines up to £100 or up to six months imprisonment. Responding to complaint that these penalties were inadequate, the Government passed the *Black Marketing Act* at the end of 1942.[1] As its title suggests this was as much a political propaganda document as a serious attempt to penalise breaches, and, as described in subsequent chapters, the Attorney-General did not readily proceed under the Act, and convictions were hard to obtain.

On the other hand the policy of the Commission was to prosecute under National Security Regulations if there were any case at all, invoking the *Black Marketing Act* only in serious cases, the purpose being to publicise the risk offenders ran. Difficulties arose because procedures and actual penalties were very divergent between States, and the Commission was generally critical of the leniency of (State) magistrates. In New South Wales, mainly because of its larger population, prosecutions were more numerous and were handled by a special Commonwealth magistrate; penalties there were more consistent and in general more severe than in other States.

The attached table sets out the total results of prosecutions under both National Security Regulations and the *Black Marketing Act*. Other impres-

[1] No. 49 of 1942; assented to 6 Oct 1942.

sionistic evidence is consistent with the suggestion of these figures that evasion became more widespread near and after the end of the war, as the moral and emotional pressure to accept restrictions weakened. Many of the offences were of a relatively mild nature, and some at least of the public impression of widespread serious evasion arose because purely technical breaches which were ignored by the authorities (such as transfers, not necessarily for payment, of unwanted rations) were commonplace and familiar to everyone.

Year ending 30 June	Number of persons imprisoned	Number of persons fined	Total amount of fines imposed (£)
1943 . . .	36	92	1,243
1944 . . .	53	400	4,512
1945 . . .	55	560	7,909
1946 . . .	19	531	9,642
1947 . . .	3	425	8,269
1948 . . .	2	605	11,293
Total	168	2,613	42,868

It is, of course, impossible to form any quantitative idea of undetected evasion. By and large, however, the objectives of consumer rationing were attained; much of the very numerous minor and often purely formal, evasion not merely did not matter, but in fact contributed to easier working and better toleration of the restrictions. In general, consumption of rationed commodities was held at about the levels intended, and such serious divergencies as did from time to time occur were more obviously explicable by inadequate advance information available when decisions were taken than by assuming widespread blackmarketing on a serious scale. But it should also be added that, except in the case of clothing, coupon rationing of consumers did not involve serious reduction in accustomed scales of consumption so that incentives to extensive serious evasion were lacking.

CHAPTER 12

MEETING INFLATION

IN its first budget the Labour Government did not enunciate any major departures in financial policy; and after the Japanese attack policy continued, on the surface, on much the lines which had operated since war began: major reliance on voluntary loans.[1] The December 1941 increases in income and company taxes, while not unimportant, were not as great as might have been expected. Not until May 1942 were there further tax changes, and then they took the form of modest rises in sales tax which, in the event, were to yield only small additional revenue.

Yet the continuity of policy in the conventional "financial" fields of taxes and loans was misleading, for conditions were dramatically changed by the Pacific war. Even approximate forecasting of war expenditure was hazardous, for the whole basis of war planning was transformed. The immediate threat meant that only the maximum effort, in expanding fighting forces, in increasing warlike output and production of supplies, in major and varied construction work, could be the objective, and that must be sought with speed. How much and how fast could only be dimly seen, for it depended on the operation of new administrative measures (notably the Manpower Directorate) and on the new urgency imposed by the Japanese advance. For the next few months attempts to reduce to financial estimates enlistment and production targets could not have much meaning for action, and they were not seriously attempted. No one questioned that, if targets were missed, it would not be for merely financial reasons, and the central issue of financial policy thus became quite other than how much money must be found and by what means.

It was clear that short-term tax changes had little relevance. The main indirect taxes (sales tax and customs duties) offered little further scope for increases, because wartime restrictions on the flow of dutiable imports and the growth of direct and indirect restrictions on civilian consumption meant a declining flow of transactions subject to such tax. The main source of additional tax revenue must be income tax, large increases in which must wait on resolution of the problem of State income taxes and, in any case, could not be made with immediate effect on revenue in the second half of the financial year. Loans, voluntary because Labour was committed to rejection of compulsory borrowing, must be the main source, supplemented by short-term finance from the central bank.

These conditions, a great and unforeseeable rise in war expenditure and the practical need to rely on loans, carried the implication of the central issue of policy for this period. They implied, in a now fully employed economy, that means must be found to counter the inflationary pressure inherent in such finance. This is the central theme of financial

[1] Butlin, *War Economy 1939-1942*, Chapter 11.

policy at this stage, and what distinguishes the policy evolved is the nature of the techniques adopted to contain and damp down inflation.[2]

The chief barriers to be erected against inflation emerged with striking rapidity: they were all announced policy by February 1942 and can be summarised as a series of defences in depth: (a) increases in income were to be restrained by direct action, the "pegging" of wages and of profits; (b) private spending was to be restricted by direct controls of production, trade, and consumption, so that the enlargement of total money income which would still occur, despite the restraint of wage and profit pegging, would tend to result in unspent income accumulating (and being drained away by loans); (c) price increases which were inescapable despite these two barriers were to be damped down by tighter price control, aimed at squeezing profit margins; (d) the last defence was to be the income tax weapon. Of necessity at this stage the weapon could only be forged by initiating uniform income taxation which would peg the income tax revenue of the States and make possible severer taxation of private incomes. In the event, the weapon was not to be unsheathed until 1943, but it was designed in February 1942.

It does not seem that these four were ever publicly presented as an integrated financial plan. The nearest approaches to such a statement were the exposition of the "National Economic Plan" embodied in the Economic Organisation Regulations (that is, mainly wage and profits pegging) and the replies by Chifley, the Treasurer, in February 1942 to the cries of "inflation" which greeted his introduction of a bill to authorise £75,000,000 in loans, replies which emphasised the role of direct production and consumption controls in controlling private spending. Unexpectedly there was no direct Financial and Economic Committee influence (it held only one poorly attended meeting at this stage—its members were too busy), but individual members, especially Copland and L. F. Giblin, were influential in the design of the policy. The outcome in any case was a more coherent and unified plan than are most policies announced as such. To a significant degree the integration was imposed by events.

In February the £35,000,000 loan authorised the previous October was opened as the (first) Liberty Loan, and within three weeks £48,300,000 has been subscribed. Special efforts had been made to make the loan attractive: three-year bonds at 2½ per cent or eight-year bonds at 3¼ per cent, with contributions payable in ten monthly instalments. These terms, as much as the national emergency, explained why there were over

[2] To characterise this as "Labour's financial policy" would be misleading. The conditions the Labour Government faced at this time would have faced any government since they were imposed by the Japanese attack. Any government would have had the same advisers, and the same directions of policy would probably have been adopted. If there were distinctively "Labour" features, they were the readiness with which profit limitation was adopted and the determination with which uniform income taxation was pursued. The point is mainly of such negative importance, that blame or credit for financial policy at this period, if expressed in party-political terms, is largely irrelevant. It was fortunate that the tasks of creating a bar to wage increases and imposing uniform income tax fell on a Labour government which was able to discharge them more quickly and more fully; but that is a comment of a different order.

244,000 subscribers, three times as many as in any preceding loan during the war.

Before this loan had closed, the Government sought parliamentary authority for the raising of a further £75,000,000 during the remainder of the financial year, which Chifley forecast would meet all loan needs for that period, although he emphasised the extreme difficulty of such estimates. (In the event actual raisings were only £40,400,000, of which only £37,400,000 were from the general public.) This became the occasion for a sustained attack by the Opposition, which argued that the Government was persisting with inflationary finance: E. S. Spooner, a former Minister, pointed out that over £70,000,000 had already been raised by Treasury bills from the central bank in seven months of the financial year; the scale of voluntary loans planned implied further resort to the same source unless private spending was restricted. Since the Government had not taxed, especially the lower incomes, on a scale to achieve this, inflation, the Opposition claimed, was inevitable. (Spooner pressed rationing as the most obvious supplement to taxation of lower incomes for the purposes of restraining expenditure.)

Chifley's reply could not be considered a convincing statement. He endorsed the need for rationing, and for the rest declared:

> If Australia's war effort continues to expand, the expenditure, which today is regarded by some as evidence of inflation, will doubtless seem comparatively small. We must keep our feet on the ground and realise that, because the situation is abnormal, we must do unusual things. Those unusual things may have bad consequences if we fail to exercise proper economic control. The Government is endeavouring to the best of its ability to provide that measure of control, and I think its efforts have met with reasonable success.[3]

The general theme, that inflation could be suppressed by sufficiently far-reaching economic controls was valid enough, but it was not developed and such novel doctrine was not likely to be understood, still less accepted, on the strength of such a general statement.

Moreover, the controls to which Chifley referred were still in the process of being developed. The Economic Organisation Regulations were barely in force and, as he spoke, a parliamentary committee was softening some of their impact. Rationing, which was being canvassed by many authorities as a corrective for a variety of ills, was not yet adopted and was unwelcome to a number of Ministers. The network of direct controls on production and sale, which was to spread so widely by the end of the year, was probably not in Chifley's mind; most of it was still to be fabricated, and each part owed its origin to a particular problem, not to a plan for suppressing inflation.

The trading banks' special wartime deposits with the Commonwealth Bank required under the banking regulations of 26th November 1941 were barely in operation.[4] The leading items in trading bank figures had moved thus:

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[3] *Commonwealth Debates*, Vol. 170, p. 171, 5 Mar 1942.
[4] See Butlin, *War Economy 1939-1942*, p. 394.

Nine Trading Banks
(£A million)

	Total deposits	Treasury bills	Government securities	Special deposits	Advances etc.	Bank clearings
1941 Sep.	366.5	38.0	62.5	—	279.2	52.0
Oct.	369.2	42.5	62.5	—	281.6	57.0
Nov.	375.2	46.2	62.6	—	279.3	58.2
Dec.	383.9	48.8	61.9	7.8	274.1	56.7
1942 Jan.	385.8	50.3	60.1	17.0	269.4	50.5
Feb.	394.6	51.4	58.2	29.0	262.9	61.2
Mar.	386.4	47.7	56.4	34.9	263.3	61.8

These figures were not ones to cause concern, but rather confirmed what was implicit in the banking regulations: that for the duration of the war the trading banks were not an independent source of inflationary pressure.

More significant were some Commonwealth Bank figures:

Commonwealth Bank
(£A million)

	Note issue public holding	Government securities (including Treasury bills)
1941 Jan.	49.6	91.9
Feb.	48.5	90.1
Mar.	49.2	92.6
Apr.	50.9	91.6
May	51.9	88.9
June	53.8	100.6
July	55.0	104.7
Aug.	56.5	110.5
Sep.	57.8	121.7
Oct.	59.3	125.0
Nov.	60.9	125.7
Dec.	67.2	150.0
1942 Jan.	68.1	153.7
Feb.	72.0	170.6
Mar.	77.9	176.3

These were figures which did point to a problem. In itself the financial problem required that the public be prevented from spending, whether by taxing them, borrowing from them, or immobilising their money by rationing or other direct action. In principle the nominal source of government funds was not vital if the prevention of the public's spending were fully effective. This was the doctrine that Chifley was asserting, but the note issue figures, in themselves only a small facet of the problem, pointed the moral that controls would have to be comprehensive and drastic if they were to be effective.

Consistently with this view the Government confined its tax measures primarily to the definitive decision to introduce a single Commonwealth income tax for the duration of the war, and this, though the prerequisite for substantial increase in income tax, was not a route to immediate large increases in revenue. Apart from moderate sales tax increases, no other tax changes were made before the budget in September 1942.

The sales tax changes included abolition of tax on certain goods (mainly drugs, medicines and allied products) previously taxed at 5 per cent. Primarily, however, the changes were intended to increase revenue by raising the general tax rate from 10 per cent to 12½ per cent, and the old 20 per cent rate to 25 per cent, estimated to yield in a full year an additional £6,400,000. The Treasurer welcomed any discouragement to consumption which might follow.

These May 1942 rates were the wartime peak for sales tax. The scope for raising further revenue from this source was exhausted. At the time the value of sales subject to tax was estimated at £207,000,000, only a little above the £200,000,000 of 1939, despite substantial increases in prices. Moreover, despite the estimated full-year increase of £6,400,000 in revenue, 1942-43 was to yield only a little over £2,000,000 more than 1941-42. Consumption of goods subject to sales tax had been restricted by shortages of resources to produce them, by rationing and other restraints. Moreover, in 1943 the price stabilisation scheme was to make further sales tax increases inappropriate.

"THE NATIONAL ECONOMIC PLAN"

On 10th February 1942 the Prime Minister announced the National Economic Plan adopted that day by the War Cabinet:

> The Government has decided upon a policy of economic control that will, at one and the same time, place the full resources of the country in men and materials at the disposal of the Government and promote the greatest unity of effort. The plan involves government direction of industry and trade so that the production of war materials will be speeded up; the manpower of the community mobilised in the interests of the nation, and the incomes of all sections of the community equitably controlled.

A week later, speaking at the opening of the (first) Liberty Loan, the Prime Minister foreshadowed other regulations for "the total mobilisation and ordering of all the resources—human and material—of Australia on a Commonwealth-wide basis to ensure the defence of our country". These were the National Security (Mobilisation of Services and Property) Regulations[5] which formally authorised the Government to direct any person resident in Australia (other than diplomatic and consular staffs) to perform any service required of him or make his property available as demanded. (Compensation would be payable.) The association of these regulations with a loan issue could have suggested the possibility of compulsory subscriptions, but their primary purpose, apart from exhortation, was to render everyone, including aliens, subject to compulsory service if called upon.

[5] Statutory Rules 1942 No. 77, 20 Feb.

The same day the National Security (Economic Organisation) Regulations[6] were issued to give effect to the National Economic Plan. Their main features were: (1) profits were to be limited to 4 per cent on capital employed. The Prices Commissioner was directed to control prices with this rate as a target figure. Any excess, it was foreshadowed, would be taken in taxation. (2) Transfers of property were severely restricted. The procedure was to prohibit all transfers of land, shares and debentures (excluding government securities) or any other type of property "declared" from time to time; provision was then made for exempting any transactions shown to be then in progress, and also any class of business or any particular transaction. The latter clause thus became the basis of a system of Treasury "consents" to property transfers in which, since the objective was to restrain speculation, the main concern of the Treasury came to be the prices at which property changed hands. (3) Interest rates on any form of lending were made subject to decision by the Commonwealth Bank as to maximum rates on various classes of transactions. The regulations made clear that the more obvious forms of evasion and of concealment of interest payments were intended to be covered, and embodied an invitation to any person who paid excess interest to recover it by declaring the excess to be a debt from the recipient. (4) The fourth group of restrictions came to be referred to summarily as the "pegging of wages". Generally it was forbidden to pay or receive wages in excess of award or actual rates (whichever was the greater) paid on 10th February 1942.[7] Arbitration authorities might make awards on cases then before them, when these awards would become the maxima for those occupations. In addition, automatic cost-of-living adjustments would continue, as would any normal increments in pay. The only way, under the regulations, new proceedings for an award could be started was to prove to an arbitration authority that rates of pay in the occupation concerned were "anomalous". (This seemingly vague term acquired content in the context of arbitration courts' practices and principles concerning relative rates of pay.) Absenteeism was attacked by requiring employees to present themselves for work during normal hours unless ill, or granted leave, or because of "a domestic or other pressing emergency".

The Treasurer promptly warned that transactions in shares would be permitted only under contracts already made or those "necessary to prevent hardship or to meet urgent commitments". "Sales of land", he added, "will definitely not be allowed immediately so that no application should be made for consent to transfers of land other than those arising from contracts already entered into", for which, two days later, a general consent was given including all contracts made up to 20th February, the date of the regulations.

Collectively the Economic Organisation Regulations were sweeping provisions—too sweeping to be sustained. Criticism and protest against the property transfer clauses led to the appointment of a joint-party

[6] Statutory Rules 1942 No. 76, 20 Feb.

[7] Specifically, above-award payments then being made might continue, but could not be increased.

Parliamentary Committee to consider revision. Meanwhile the Treasurer announced the Government's policy concerning sales of houses. New houses might be sold (recognising the widespread Australian practice by which builders erected a house for speculative sale), as might houses which had been occupied by their owners for the previous year. In both cases, however, consent depended upon price being not more than ten per cent above the greater of a certified valuation or the last purchase price.

There was also admission by the Prime Minister[8] that the profit limitation principle was proving a thorny one, and he gave an assurance that Parliament would have an opportunity of debating the specific taxation amendments which would be necessary.

On 5th March the Parliamentary Committee completed its report and ten days later Chifley announced that the Government would implement its recommendations. No changes in the industrial provisions were proposed, while the only variation in the interest rate restriction was to eliminate any interference with existing contracts. But the other changes were important.[9]

Profit limitation was to be deferred so that its operation should be later than 1st July (that is, the opening of the new financial year) and the date should be determined by resolution of both Houses. Land transfers were to be permitted provided the seller had owned the land for twelve months and the price was not more than ten per cent above "a fair and reasonable price as at 10th February 1942, as determined by an approved valuer".[1] It was noted that the Landlord and Tenant Regulations were being amended to prevent eviction of a tenant of a house by a new owner unless alternative accommodation was available.

Transactions in stocks and shares were to be permitted provided they were for cash, the securities had been held for at least five months, and prices were within maximum and minimum limits prescribed by the Treasurer after consultation with the Stock Exchanges. Transfers of property other than land or stocks and shares and debentures were to be free.

These were major concessions. So far as they concerned property transfers, their effect was, subject to a good deal of evasion, to achieve the primary objective of restraining speculation while not imposing undue hardship or unnecessary denial of transfers of ownership. But the deferment of profit limitation was to be the first step towards its ultimate abandonment.

INVESTMENT AND PROPERTY CONTROL

As it developed, the new government's approach to the control of private investment took two quite distinct forms. First, existing regulations were strengthened and administrative arrangements streamlined so that

[8] Statement of 4 Mar, *Digest of Decisions and Announcements*, No. 20, pp. 14-15.

[9] Report of Parliamentary Committee formed to consider the National Security (Economic Organisation) Regulations, 5 Mar 1942.

[1] In practice, this usually meant using as a basis valuations by State Valuers-General, because such valuations were already available for most property; these valuations were primarily for local rating and similar purposes.

most of the remaining loopholes were eliminated. Second, as forecast, capital issues control was extended to exercise a form of price control on the transfer of agricultural land, residential and commercial property, and stock market securities.

By the end of 1941 the primary objective of investment control had become firmly established. The view operative during the first two years of the war that restrictions on capital expenditure released money for war loan subscriptions had been replaced by a policy which placed emphasis on the elimination of non-essential investment to assist the diversion of manpower and materials to the war effort. A network of controls over building operations, trading bank advances and new capital issues had been constructed, and well before Pearl Harbour these had made heavy inroads into the volume of gross private investment. Further drastic reductions were now necessary but, given the policy and administrative developments of 1941, these could be largely achieved by the intensification of existing restrictions.

Some change in administrative detail was, however, found expedient. In November 1941 the Curtin Government abolished the old Capital Issues Board and replaced it with a Capital Issues Advisory Committee. The two bodies were identical in function but quite different in composition. The board had included a number of businessmen, and government representatives were in a minority; with one exception the committee consisted of public servants.[2] The change was made necessary by increasing difficulty in retaining businessmen on the board, and by certain difficulties that had arisen on the board about the interpretation of policy. With the old membership there also existed the ever present possibility of conflict of interests, although there is no suggestion that any member exercised an improper influence. The committee, with membership reduced from seven to five, was so composed as to be able to achieve a more rapid, consistent and stringent examination of applications.

As with the board, the committee was purely an advisory body, but almost immediately it established the confidence of the Treasury and nearly all its policy and specific recommendations were accepted. In general, applications in excess of £20,000 and those which raised matters of principle were referred to the committee for report; others were determined by the Treasury according to established rules. The only minor difficulty that arose between adviser and executive early in 1942 was that the committee was more anxious to wield the axe than the Treasury, and there were strenuous complaints about approval being given for the construction of what were regarded as non-essential schools, churches and hospitals. But such instances were rare, and there is surprisingly little subsequent reference to differing standards of essentiality.

The further reduction of private investment after Pearl Harbour was achieved by applying existing regulations more rigidly, and by the exten-

[2] Originally membership of the committee comprised: as chairman H. McConaghy (chairman of the Tariff Board), W. C. Balmford (Commonwealth Actuary), A. A. Fitzgerald (Lecturer in Accounting, University of Melbourne), H. Magee (member, Wartime Companies Board of Review), G. M. Shain (Deputy Governor, Commonwealth Bank).

sion of supporting controls over manpower and materials. The effect of greater stringency is indicated in the table below, although the statistics conceal part of the change because of the rise in manufacturing investment approved for war purposes. Supporting this action were changes in the regulations which virtually eliminated the remaining freedom to borrow without the approval of the Treasurer. First, the limit of mortgage borrowing without consent was progressively reduced from £5,000 to £2,500 in December 1941,[3] to £1,500 in January,[4] to £1,000 in April,[5] and finally to £500 in August 1942.[6] Second, acceptance of deposits by companies and firms was limited to £1,500 in January 1942,[7] and at the same time acceptance of new deposits by building societies, pastoral companies and co-operative societies was limited to five per cent of deposit liabilities as at 26th November 1941. This limitation closed the most important of the remaining loopholes. For some time companies had been avoiding undistributed profit tax by declaring dividends which were then accepted as unsecured deposits. Initially policing of the new limitation was difficult because unsecured deposits were not usually cited separately in balance sheets and the Capital Issues Committee believed that the regulation was being evaded. By mid-1942, however, State registrars of companies had agreed to insist that deposits be declared and evasion on any scale became much more difficult.

Control of private building was also tightened to the point of effective elimination of construction without permit. In April 1941 the general limit on building without approval had been reduced from £5,000 to £3,000, but this did not greatly affect the construction of average homes. In January 1942 the limit was lowered to £2,000,[8] a figure which still left some latitude. But by April the pressure on resources was such that this degree of tolerance in one of the most sensitive areas of the Australian economy had to be sacrificed: all building without permit was prohibited except for government-sponsored housing of war workers and other construction connected directly with the war effort.[9] This brought to a standstill the bulk of private building until the last year or so of the war. Some evasion was inevitable, but the difficulty of obtaining building material ensured that most was on a small scale and in the form of alterations to existing structures. At the same time, control of building was transferred from the Treasury and Capital Issues Committee to the Department of War Organisation of Industry because of the detailed regional knowledge of the latter department and the need for co-ordination of government-sponsored projects.

Other matters which concerned the Committee were the privileged position of gold-mining companies, and lending by life insurance companies. Gold-mining companies had continued to be free to make calls

[3] Statutory Rules 1941 No. 304, 17 Dec.
[4] Statutory Rules 1942 No. 23, 28 Jan.
[5] Statutory Rules 1942 No. 196, 27 Apr.
[6] Statutory Rules 1942 No. 366, 25 Aug.
[7] Statutory Rules 1942, No. 23, 28 Jan.
[8] Statutory Rules 1942 No. 22, 28 Jan.
[9] Statutory Rules 1942 No. 185, 16 Apr.

CAPITAL ISSUES: APPROVALS AND REFUSALS 1941-43
(£'000)

	26 Apr to 21 Jan 1941	22 Jun to 27 Sep 1941	28 Sep to 27 Dec 1941	28 Dec 1941 to 21 Mar 1942	22 Mar to 20 Jun 1942	21 Jun to 19 Sep 1942	20 Sep 1942 to 2 Jan 1943	3 Jan to 3 Apr 1943	4 Apr to 3 Jul 1943
				Approvals					
Manufacturing									
New Money	191	1,793	226	250	273	354	254	393	461
Other Issues	147	1,021	183	289	344	138	19	662	311
Sub-total	338	2,814	410	539	618	492	273	1,055	772
Primary Industry									
New Money	23	112	—	29	38	3	2	20	2
Other Issues	191	62	10	4	19	—	—	—	2
Sub-total	214	174	10	32	57	3	2	20	4
Mining									
New Money	45	465	21	121	50	23	6	54	75
Other Issues	63	10	9	6	4	—	—	16	5
Sub-total	108	475	30	127	54	23	6	70	80
Wholesale and Retail									
New Money	5	8	14	—	6	5	26	—	—
Other Issues	172	83	53	1	3	2	6	4	8
Sub-total	177	91	67	1	9	7	32	4	8
Miscellaneous									
New Money	70	223	217	44	64	131	125	36	70
Other Issues	134	85	234	27	33	16	49	29	127
Sub-total	204	307	451	71	97	147	174	65	198
Totals									
New Money	334	2,600	478	444	431	515	413	503	609
Other Issues	707	1,260	488	327	403	156	74	710	452
Grand Total	1,041	3,861	967	770	834	671	487	1,213	1,061
				Refusals					
Total	376	678	3,989	967	342	286	657	272	285

Note: Statistical discrepancy due to rounding. Excluded from approvals are mortgages and charges as the amounts involved after 1941 were negligible. Statistics of refusals represent cases for which consent was refused by the Commonwealth Treasury without submission to the Capital Issues Advisory Committee. Refusals by the Committee were not compiled.

Source: Papers of the Capital Issues Advisory Committee.

on shares, and the Committee urged that this exemption be repealed. (In January the Commonwealth Bank also was critical.) Politically gold-mining was a difficult activity, and final solution of the problem of calls on shares was to be painfully achieved in the early months of 1942 by the restriction on the industry's use of manpower. Life insurance companies were a difficult problem for other reasons. It was claimed that they freely lent to borrowers who had been rejected by the trading banks in accordance with Commonwealth Bank directives on policy. Each reduction in the permissible amount of mortgage loans brought more insurance company business within control, but there remained two forms of insurance company lending which presented difficulties. Many of their borrowers were primary producers whose loans fluctuated; the Committee proposed to deal with such loans by requesting the companies to submit for approval all "further advances" (that is, increases in borrowers' debits) in excess of £1,000 in any twelve months. ("Requesting", of course, implied that refusal to co-operate would bring formal control.) Loans on the security of policies were more complicated and the Committee deferred action until it could discover more of their amount and nature.

The result of these measures was a drastic decline in private investment in both absolute and relative terms. Compared with 1938-39 the decline in money terms by 1942-43 was 79 per cent (83 per cent in real terms). Relatively the decline was equally marked, with the ratio of private investment to gross national product falling from 14.7 per cent in 1938-39 to 6.6 per cent in 1941-42 and then to a negligible 2.1 per cent in 1942-43.[1] After Pearl Harbour it is clear that in the aggregate net private disinvestment did occur, with the small amount of new expenditure failing by a wide margin to maintain the existing stock of capital.

The second and outwardly more important policy development was the extension of control to the market in real property and financial assets (other than government securities). Although for administrative purposes forming part of capital issues control, the regulations introduced in February 1942 to control the transfer of real property, stocks and shares had little in common with the regulation of new capital issues. Whereas it had become accepted that the main purpose of investment control was to assist the diversion of real resources to essential war requirements, no significant benefits of this kind could be expected to flow from the control of property transactions. As explained by the Prime Minister, the objective of the regulations was

> to limit sales to those necessary for the maintenance of the essential economic life of the community. This is not a time for buying and selling property of all kinds merely for the purpose of speculation. Transfers of property must, and will, be limited to essential needs, and every effort will be made to stabilise the value of property and to prevent inflationary movements brought about by people who, to use the parlance of the market, prefer a "hedge" against inflation to their obvious national duty of subscribing to the war effort.[2]

[1] *National Income and Expenditure 1947-1948.*
[2] *Digest of Decisions and Announcements* No. 18, p. 17, 19 Feb 1942.

On this occasion Curtin's puritanism coincided conveniently with the Labor Party's entrenched antipathy towards large property owners, but because the regulations were concerned with the ownership rather than the use of resources, it is unlikely that they added much to the war effort. In early 1942 they may have added weight to the Government's determination to throw everything possible into the war against Japan, but the psychological benefits were soon dissipated by the administrative unworkability of essential parts of the controls and by the Treasurer's stubborn refusal to adjust to changing circumstances. The regulation of property transactions became therefore a dubious form of price control, and the widespread unpopularity and evasion of the system cast a shadow over more essential parts of economic administration.

Reflecting the incompleteness of the original formulation, policy was being reconsidered at the time the regulations were gazetted. As announced on 19th February, all transfers of land, stocks, shares or debentures were prohibited as from 10th February, and it was made clear that exemption would be granted in exceptional circumstances only. Such a blanket prohibition was obviously untenable, and by 5th March the parliamentary committee with the government's blessing had produced a report which substituted price control for prohibition. The substance of the report and of the regulations which followed was that sales of land were to be permitted so long as the price was not more than ten per cent above "a fair and reasonable price" as at 10th February 1942 as determined by an approved valuer. In the case of company securities, sales were permitted so long as the securities had been registered in the name of the vendor for at least five months, and that the transfer had been transacted at a price which fell within maximum and minimum limits determined by the Treasurer in consultation with the Associated Stock Exchanges of Australia.[3]

In the case of land transfers the development of an elaborate administrative machine was necessary to take account of the diversity of land uses (with land being defined to include any on-site structure), and also to provide for valuations based on prices ruling on 10th February 1942. Sensibly a decision was taken at the outset to decentralise administration in State Sub-Treasuries so that advantage could be taken of the knowledge of local real estate people supported when necessary by the regional records of the Taxation Department. Advisory panels were appointed in each State to assist the Sub-Treasuries, and these consisted of the senior valuer in the Taxation Department and a number of people engaged in real estate business who were members of the Commonwealth Institute of Valuers. All applications for transfer had to be accompanied by a certificate of valuation from an approved valuer,[4] and it was this certificate which in most cases determined the success or otherwise of the application. This procedure proved to be the main weakness of the system.

[3] Statutory Rules 1942 No. 110, 9 Mar.

[4] An "approved valuer" was one who had had at least ten years continuous experience as a valuer immediately prior to the commencement of the regulations.

At any one time the number of transactions in real estate is always a very small proportion of the total stock of property, and in early 1942 the proportion was lower than usual. In any case, the valuation of property at the best of times is highly subjective even when figures of sale prices of similar property are available. It is not surprising, therefore, that approved valuers found it extremely difficult to adhere strictly to February 1942 values. During 1942 the task of the approved valuer was comparatively easy as prices did not vary much during the year, and from an administrative point of view the regulations worked reasonably well. But during the last two years of the war, when the demand for both city and country property advanced considerably in anticipation of post-war reconstruction, the task of valuers became almost impossible not only for technical reasons but also because buyers and sellers exerted strong pressure on them to produce an "acceptable" valuation.

The rules that were developed to handle the several categories of transactions were necessarily diverse, but in addition to the fundamentals of capital issues control the primary concern of the administration was to prevent the concentration of wealth. A basic principle was that investment purchases of both urban and country property were to be discouraged as far as possible. With the qualification that existing mortgages could be taken over, all purchases of this kind had to be for cash. In the case of residential housing a form of rationing was applied with the object of limiting one man (and his family) to one house so as to encourage home ownership. Difficulties were encountered in the administration of this rule because rent control frequently prevented vacant possession being obtained of a newly acquired house. If occupancy could not be obtained, the intending owner-occupier was prevented from purchasing a second house until his first acquisition had been sold. This resulted in many cases of genuine hardship but the rule was not relaxed for fear of opening the way for large-scale investment purchase. In general the regulations worked well enough in preventing concentration of ownership, but they were far less effective in controlling price. At first inflation of prices occurred through the payment of excessive amounts for furniture; and then when separate furniture contracts were required and brought within the authority of the Prices Commissioner, vendors simply switched to asking for "key money"; given the chronic and growing shortage of housing there was virtually no way of stopping this form of black-marketing.

Sales and leases of country land were at first less rigidly controlled, mainly to allow existing primary producers to rearrange their holdings as required. The only restriction on the transfer of land which had been used for primary production twelve months before the date of sale was that the price conform to 10th February 1942 value, but no certificate of valuation was required by the Treasurer. However, the partial exemption of country land did not last long. Towards the end of 1942 "outside" capital was attracted to rural industry in increasing amounts as the outlook for most industries improved. With the introduction of the dairy

industry subsidy dairy farms, particularly in Victoria, were sought by investors. The taxation advantage of rural property development also played its part. To discourage "outside" investors and to maintain stable prices, the sale of country land was fully controlled from December 1942.[5] Existing producers were not prevented from adding to their properties, but any other intending purchaser was required to demonstrate that he possessed experience as a primary producer. This discouraged some but many others were able to side-step the test by a variety of methods and a large number of properties passed into the hands of investors during the latter part of the war.

The transfer of commercial, industrial and vacant land was also restricted, but in these cases the regulations were probably even less successful than in the case of country or residential land. Associated with the transfer of commercial property was the "goodwill" of the business on which no precise valuation could be placed. Hotels illustrate the problem in an extreme form. The concentration of industry and military camps in new locations during the war provided a bonanza for some hotels and property values were affected accordingly. Valuers were instructed to discount heavily the influence of temporary wartime changes, but it was clearly impossible to do so with any degree of objectivity and in most cases the price limitation was flouted by one means or another. City property and industrial land fell into a similar category with the authorities accepting the need for some bending of the rules in these cases. The embargo on new borrowing was, however, enforced rigidly,[6] although large investors were able to finance expansion from internal sources—and were in fact aided by the official freezing of land values.

The acquisition of vacant land for home building was actively discouraged during most of 1942, but towards the end of the year there was some relaxation which permitted the purchase of a single allotment (not necessarily restricted to one block) up to a total value of £250. The relaxation also applied to subdivided land. These were sensible changes which recognised that no good purpose would be served by holding back the supply of building land until the period of post-war reconstruction when average prices were likely to be higher.

In the administration of listed security prices the Treasurer was prepared to be a little more flexible. When stock markets reopened[7] on 11th March 1942 after the amendment of the Economic Organisation Regulations, the administration of maximum and minimum prices was left largely in the hands of stock exchange committees. There was, of course, strenuous opposition to any tampering with the securities market, but the

[5] Statutory Rules 1942 No. 539, 16 Dec.

[6] In a further effort to curb investment purchases of real estate, a "war loan test" was introduced in December 1943 which required war loan bonds to be lodged with a bank of an amount scaled progressively in proportion to the size of the investment, including also other properties acquired since the outbreak of war.

[7] Between the introduction of the embargo on all property transactions on 19 February (by Statutory Rules 1942 No. 76), and the qualified lifting of the embargo on 9 March (by Statutory Rules 1942 No. 110), stock market trading was suspended.

stock exchanges appreciated quickly that their own interests would be served best by co-operation with the Treasurer; and for his part, Chifley accepted that a measure of self-regulation had to be allowed if markets were to work at all.

The agreed procedures worked reasonably well until September 1942. For each listed security (excluding Commonwealth and semi-governmental stocks and bonds) maximum and minimum prices were established ten per cent above and ten per cent below prices ruling on 19th February.[8] Transactions were permitted only within these price limits. The object was to create a stable market, to discourage the purchase of ordinary shares as a hedge against inflation and, in particular, to prevent speculation based on the changing military situation. Also to restrict speculation, resale was permitted only after a security had been held for five months. But maximum and minimum prices were not regarded as fixed, and the Treasurer delegated authority to the Associated Stock Exchanges to revise the price limits at fortnightly intervals up to ten per cent at a time. This allowed the exchanges not only considerable freedom to regulate their own affairs[9] but also partial exemption from the rigid price control of real estate property.

This honeymoon was terminated abruptly by the Treasury[1] after the development of a minor bull market in ordinary shares, following Australian successes at Milne Bay and elsewhere in New Guinea at the end of August and early in September 1942. During September the Sydney Stock Exchange Index of Ordinary Shares rose 7 per cent compared with an average rise of about 2½ per cent per month between June and August; the press over-reacted and wrote about soaring share prices; and awkward questions were being asked about the "freedom" of the exchanges by members of the Labor Party's Caucus. The normal fortnightly revisions of maximum and minimum prices were therefore terminated on 8th September until mid-November. In the reconsideration of the system of regulation which took place between these dates the uncertainty which existed about the extent of price adjustment that the Government was prepared to tolerate was removed. Superimposed on the system of adjustable maximum and minimum prices was a price ceiling on all shares beyond which price adjustment was not permitted. The ceiling was determined on the basis of the greater of either the existing maximum or the highest selling price in September 1941 (the month of peak wartime prices). As the ceiling was set about eight per cent above average prices in September 1942 (and 24 per cent above the admittedly depressed market of February 1942), the Treasurer was still prepared to be more generous with securities than with real estate.

The new procedures achieved price stability fairly quickly at the expense of a steep fall in the volume of transactions. Beginning on 16th

[8] Stockbrokers were also instructed to advance no further credit to clients beyond debit balances as at 19 Feb.

[9] Exchanges were, for example, permitted to exceed the price limits without reference to the Treasurer when setting high and low prices for very cheap shares, when eliminating fractions, and when adjusting for dividend differences.

[1] Commonwealth Actuary to Chairman of the Associated Stock Exchanges, 8 Sep 1942.

November, groups of stocks were in turn allowed to advance in price by ten per cent at a time, and by January 1943 persistent buying pressure had pushed most leading stocks to their ceiling prices. Monthly revisions of ten per cent up or down were permitted beneath ceilings, but by mid-1943 many stocks were jammed at their ceilings with no sellers and a long list of buyers. Despite further minor revisions to be mentioned later, the ceiling-price system introduced in November 1942 remained in force until the end of 1946 with the result that for long periods business on exchanges was at a virtual standstill.

One further addition to investment control in March 1942 did not turn out to be of much importance despite appearances to the contrary. After more than twelve months' deliberation by a Parliamentary Board of Inquiry,[2] and then further examination by Production Executive and the Capital Issues Advisory Committee, regulations were introduced on 23rd March to restrict the scope of cash order and hire purchase companies.[3] The regulations, which specified minimum deposits and maximum periods of repayment for hire purchase contracts, were surprisingly generous and unlikely to deter many consumers. For household appliances, for example, the minimum deposit was set at 20 per cent with up to four years to complete repayment.[4] More stringent control was exercised over cash order traders because of adverse publicity about the activities of some traders in 1940 and 1941. All places of cash order business were to be licensed; the maximum premium allowed was 9d. in the £; the amount was to be repaid in twenty weeks and the amount of credit allowed per person was limited to £10.[5]

If these limitations had been imposed during 1940 or 1941, they might have helped to reduce consumption, but by mid-1942 they were virtually superfluous. The introduction of commodity controls and the rationing of clothing so reduced non-essential consumer supplies that hire purchase and cash order business was on the decline several months before the introduction of the regulations.[6]

PRICE CONTROL

During the early months of 1942 the Prices Branch was increasingly concerned with signs of mounting inflationary pressure. As the Commission saw it, over the first two years of war, expansion in output had been achieved to a large extent by the use of previously idle or unused resources, especially of labour. Restriction of production for the civilian market had as a result been largely avoided, curtailed imports being, to some extent at least, replaced by local production. But costs were also rising because of higher costs of imports and use of less efficient labour,

[2] *Parliamentary Papers*, 1940-41, Nos. 52 and 53.

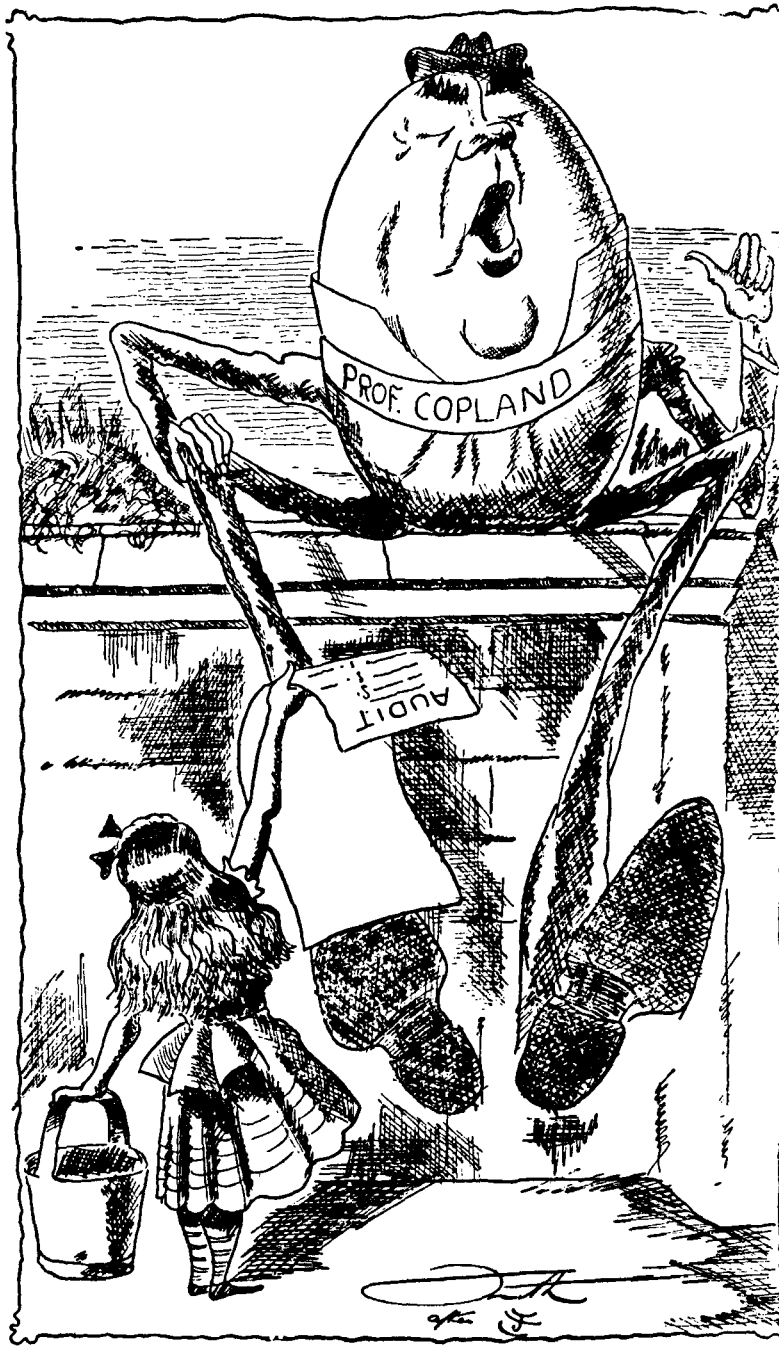
[3] Statutory Rules 1942 No. 144.

[4] The terms for second-hand motor vehicles—33 1-3 per cent deposit with 1½ years to repay—were nominally more restrictive, but such was the shortage of vehicles that if cash terms only had been specified, demand would not have been affected.

[5] Maximum discounts which could be charged to retailers were also established.

[6] For example, the volume of cash order business fell from a wartime peak of £4,300,000 in 1940-41 to £2,700,000 in 1942-43, and then to £2,400,000 in both 1943-44 and 1944-45.

ALICE IN BLUNDERLAND



"But sir, this shows the figure covering the cost of the production of milk."

"Bah! When I use a figure it means just what I choose it to mean—neither more nor less."

Frith in Sydney Morning Herald, *2 Feb 1945.*

and the price control principle based on averaging of costs over old and new stocks, while it slowed down the rate of increase of prices, did no more. Wages in general, therefore, followed increases in retail prices, and profits were rising. Note issue and bank deposits rose rapidly and although during the first two years of war retail prices in general rose by only five per cent, the stage was clearly set for more rapid increase.

Upon this situation, Pacific war superimposed new upward pressures. There were further reductions in imports, concentrated on those for civilian use because of the more urgent demands of war production, and the remaining imports were more costly, in part because of increased freight and war insurance charges. Response to Pacific war in large transfers of men and women to the armed services, to munition production, and to wartime construction, with the associated diversion of materials and equipment, meant that supplies available to the civilian market would be sharply curtailed. In short, whereas the first two years of war had posed no great threat of inflation, with expanding civilian supplies not lagging greatly, if at all, behind monetary demand,[7] policy makers and specifically the Prices Commissioner were almost abruptly faced with the prospect of a more sharply increasing monetary demand opposed to actual fall in civilian supplies.

Whatever success might attend other measures of restraint, the Commissioner was convinced that more potent direct control over prices was required.

In announcing the National Economic Plan on 10th February 1942, the Prime Minister said:

> Prices of all goods and services will be pegged, with prices ruling today as a maximum. The plan will enable some reductions in prices to be made, and this will be carried out under the existing machinery of price control. In the case of imported goods, however, where landed costs have risen, the administration of price control will continue as at present.
>
> Profits, exclusive of taxes paid, will be pegged at a maximum of 4 per cent, on capital as defined in the Wartime (Company) Tax Act. This will allow a return on capital equal to bond rate plus approximately 1 per cent. Machinery will be provided under which depreciation will be fixed at an amount determined by the life of the asset and the degree of risk of the enterprise. Profits in excess of the maximum prescribed will either be passed on to the consumer in lower prices or taken in taxation.

When the Economic Organisation Regulations embodying the Plan were issued a week later, they did not refer to prices directly. Regulation 5 read:

> Except in the case of unavoidable expenditure or under process of law, a person deriving profits from the carrying on of a business shall not part with such assets as will preclude his paying to the Commissioner of Taxation (in accordance with

[7] Symptomatic of the comfortable assumption that price increases were satisfactorily contained in the first two years of war is the fact that in October and November 1941, Keane, who as Minister for Customs was formally responsible for price control, was confidently announcing his intention of establishing an Appeals Tribunal to hear challenges to the Prices Commissioner's rulings.

legislation to be enacted by the Parliament) so much of those profits as are in excess of an amount equal to four per centum of the capital employed in the business.

But Curtin's statement announcing the regulations went further:

It will be the duty of the Prices Commissioner so to control prices that profits will be limited to an average rate of four per cent on capital employed in the business as defined in the Wartime (Company) Tax Act. Profits in excess of this amount will be payable in taxation. The tax will be applied to all companies and to other businesses the income of which, after payment of taxation, is in excess of £1,500 per annum inclusive of reasonable remuneration to the working proprietor.

The new conditions as to profits will operate as from the 10 February 1942, and the necessary legislation for the amendment of the Taxation Act will be submitted to Parliament in due course.[8]

That statement represented the view of the Prices Commissioner, Copland, as to how the policy of pegging prices and profits should operate. The Plan was the outcome of discussions amongst advisers in Canberra, and he, in his capacity as Economic Consultant, had taken a leading role. Indeed, in its broad lines the Plan was his, even if particular points in it had been originally sponsored by others, and it was his tenacity, and conviction that the broad principles should be adopted and announced without delaying to work out administrative procedures, which produced the Prime Minister's announcement. It was ironical that these parts which were his peculiar contribution and to which he clung, should founder on the practical difficulties which emerged. Profit limitation to four per cent was ultimately abandoned; price stabilisation in the form proposed in February depended upon the four per cent profit objective, and was only adopted a year later in a quite different form.

The first open indication of difficulty was the appointment of the Parliamentary Select Committee to examine the Plan, but already a small committee of Prices Branch, Treasury and Taxation Branch officials was exploring the problem. The Parliamentary Committee, as has been noted, promptly devised modifications of those parts of the Plan concerned with property transfers; on profit control the result of its examination was that control was postponed until after 1st July (the commencement of the next tax year) with an assurance that its form would be revised.

Accordingly the Prices Branch turned to modifying its system of price control to intensify restraint in the meantime, and in evident preparation for the later implementing of the directive that prices should be controlled so as to keep net profits after tax to four per cent. The new policy was announced by the Minister for Trade and Customs on 15th April 1942:

Because of increasing shortage of goods and manpower; expansion of demand for essential goods and services; and the development of a "black" market in certain goods, declarations would cover all goods and services except goods under control of Commonwealth or State Governments or any authority constituted under any State Act; livestock and perishable primary produce; services supplied by Commonwealth or State Governments or any local government. Life insurance companies would not be subject to control, but all other forms of insurance would

[8] *Digest of Decisions and Announcements* No. 18, p. 17, 19 Feb 1942.

be declared. The only other exception was the service of banking upon which the Government had already gazetted regulations giving the Treasurer the necessary authority.[9]

The Minister's announcement emphasised the great extension of the field of control. As the policy was implemented[1] there emerged also an important new principle in method of control, the restriction of profit margins. Thus far control had been aimed (primarily through "averaging") at putting a brake on price rises due to increased costs, and relying on action elsewhere for restraint on cost increases. The Economic Organisation Regulations and many other controls introduced in the early part of 1942 intensified the restraint on costs. This first broad principle of price control was retained; profit control was an additional weapon. Previously traders had been allowed to add their pre-war gross profit margin, as a percentage, as their "average" costs rose. Henceforth they were to be allowed to add the gross profit margin, as an absolute amount, which they were receiving on 15th April 1942. The justification for this change was the obvious one that a constant percentage added to costs that had been continuously rising was yielding absolute amounts of profits which could be regarded as excessive and, at least, might now be pegged without causing embarrassment to traders. With the introduction of wage pegging it was, too, more consistent than the old system.

This new principle was embodied in Prices Regulations Order No. 666, which permitted the determination in special cases of gross profit margins on base prices different from those actually prevailing on 15th April. In the following months the range of commodities covered by Order No. 666 was greatly extended. Meat had been declared in South Australia and Western Australia in March.[2] Eggs, carrots and fresh fruit were declared between June and August. Other commodities were progressively added.

Meanwhile Prices Regulation Order No. 667 had implemented the control over services announced by the Minister, with no other exceptions than those he had stated. Henceforth the prices of services were fixed at the then prevailing rate, subject to the power of the Commissioner to approve of variations. The detailed administration of both orders involved, except for minor variations, no change in what was now established practice.

There was, however, with a wider area of control and the more severe restraint imposed, a more difficult problem of enforcement; incentives to infringement were stronger and the investigation of alleged offences less easy. Accordingly, in September 1942, a Blackmarketing Bill was brought forward in Parliament, threatening the sterner penalty of imprisonment. (Penalties for offences against regulations under the *National Security Act* were, as has been noted, comparatively mild.) The resulting Act[3] provided a comprehensive definition of "blackmarketing" as virtually

[9] *Digests of Decisions and Announcements* No. 25, p. 7.

[1] In Prices Regulations Orders Nos. 666 and 667, *Commonwealth Gazette*, 16 Apr 1942.

[2] Subsequently a Meat Industry Commissioner was appointed in Sep 1942, and meat in all States was declared in Feb 1943.

[3] No. 49 of 1942.

any transaction in contravention of price control, rationing (including petrol rationing), the various controls over production or, indeed, any economic control by regulations under the *National Security Act*. Penalties were relatively severe: on summary prosecution a minimum sentence of three months imprisonment for a person or a minimum fine of £1,000 for a body corporate; if procedure were by indictment, these minima were increased to one year and £10,000. There were also provisions for more than normal publicising of convictions. Caution was displayed in a requirement that any prosecution required the written consent of the Attorney-General, who could act only after report from the relevant Minister and on the advice of a special committee.[4]

But the Act was more a propaganda document than an effective restraint, although, of course, the extent to which it deterred cannot be assessed. The difficulty of full legal proof of imperfectly defined offences against wartime economic controls has been discussed earlier; when the penalties appeared to most members of the community to be excessive it was not surprising that the Act remained virtually a dead letter.

Meanwhile little was heard publicly of four per cent profit. On 25th June the Prime Minister replied shortly to public questioning: "The Government has made no change whatever in the matter of pegging profits. This was a Cabinet decision and there has been no discussion on the subject by Cabinet since that decision was made. We are sticking to our programme."[5]

In mid-July the Treasurer made precise announcements which implied that administrative details were nearing completion. Profit in excess of four per cent would not all be taken in tax; one-fifth of the excess would remain the property of the business concerned (but perhaps withheld until after the war). Businesses with net assets less than £25,000 would be exempt, unless their net profit exceeded £1,000, when the excess over that figure would be taxed. Some form of averaging profits (and losses) over a period would be permitted.

But all these points had been agreed upon in the departmental committee's examination in March, and meanwhile the difficulties had mounted. Basing tax on a percentage of net profit calculated on capital plus reserves entailed major administrative difficulties, and any practical solution involved imposing inequities which would be hard to defend (for instance as between ordinary and preference shareholders). Moreover, it was becoming apparent that the Economic Consultant had been unduly optimistic in believing that four per cent plus a post-war right to one-fifth of any excess would be an adequate wartime incentive. In the last three months of the financial year 1941-42 it had become evident that businesses which knew they would exceed four per cent had lost interest in resisting cost increases and some retailers were cutting prices in ways that embarrassed their competitors.

[4] Of the department concerned, the Attorney-General's Department and the Prices Branch.
[5] *Digest of Decisions and Announcements* No. 33, p. 4.

The outcome of the accumulating evidence of all these difficulties was the succinct announcement by the Prime Minister on 3rd August 1942:

> Full Cabinet decided today that, owing to insuperable difficulties in providing a just application of the four per cent profits tax to the various categories of income receivers, the proposed tax has been abandoned. The Government is, however, concerned at the importance of restricting excess costs and high profits which are an impediment to the nation's war effort and will take the necessary steps to ensure that excessive profits are not made.[6]

Thus defeated, the Prices Commissioner turned to another line. The April price policy was in the nature of a stopgap which would have been completed by the profit limitation tax taking any profits which represented inaccurate guessing by the Prices Branch. Prices Branch had already been accused of operating the four per cent policy before it was law,[7] and restraint on profit margins still left prices at the mercy of cost increases. In mounting degree it was becoming clear that a number of essential industries could not continue to cover costs, as things stood, without substantial price increases. The Commissioner's alternative was to contain these increases by a policy of sudsidies, to avoid basic price increases which would spread through the whole price structure as the costs of other industries.[8]

UNIFORM TAX

On 25th February Chifley announced briefly that he had appointed R. C. Mills, J. H. Scullin and E. S. Spooner as a committee to draft proposals for amalgamating Commonwealth and State income taxes. Each in his own way, the committee's three members had long before expressed personal conviction of the need for eliminating overlapping income taxes: the chairman, R. C. Mills, in his writings and as a member of the Financial and Economic Committee, the others in Parliament and outside it. When, therefore, they were charged "to consider the question of the Commonwealth being the sole taxing authority in the field of income tax for the duration of the war and of payment of compensation to the States by way of grants", the primary intention was that they should formulate the precise means to this end. Nevertheless, the committee did formally recommend the adoption of the policy and, stressing its urgency, proposed that it operate from 1st July 1942, in respect of the income year 1941-42.[9]

The summarily stated supporting arguments traversed familiar ground. Six States imposed eleven separate taxes on income at widely different rates, and consequently the Commonwealth's freedom to raise its levies for war purposes was severely restricted. Simplification of procedure and

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[6] *Digest of Decisions and Announcements* No. 35, p. 5.

[7] The charge was denied, as a general one. How far in individual cases 4 per cent guided Prices Branch decisions is obscure. Where the Commissioner had discretion in determining allowable profit margins, no new legal power was needed. Copland had made no secret of his belief that 4 per cent was adequate. (It was a rate which had long been recognised in Munitions Department costing.) It seems probable, however, that the cases in which the accusation was true were not merely fully covered by existing law but were not numerous.

[8] See Chapter 19.

[9] *Report of the Committee on Uniform Taxation* (1942). Australian income taxes were still levied on the previous year's income; "pay-as-you-earn" taxation was not introduced until July 1944 (legislation in March).

equality of treatment were pressed as advantages to the taxpayer. A new factor was emphasis on the savings in taxation staffs which would follow —the committee said thirty per cent or 1,000 men.[1]

As a basis for compensating the States for lost revenue the committee proposed the average of each State's collection from taxes on income in the years 1939-40 and 1940-41, less the amount saved in administrative costs. Using 1941-42 as a basis was rejected, because State collections for that year (the current one) could only be estimated; the States' income tax revenue had already been inflated by war expenditure by the Commonwealth and 1941-42 figures would be further inflated. To provide for future changes in conditions, a State should be entitled to submit a claim for additional compensation in any year after 1942-43, while the Commonwealth should have a right to propose a reduction; in both cases an independent authority should investigate the claims. It was pointed out that the proposed basis for compensation gave apparently disproportionate amounts to individual States (nearly £16,000,000 to New South Wales; less than £7,000,000 to Victoria) because of the varying reliance of States in the past on income taxes.

The broad pattern of the proposed new single income tax was designed initially to raise about the same total revenue as would have accrued from existing Commonwealth and State taxes; but, of course, the Commonwealth could vary the new rates at any time. Reasonable regard was paid to the existing situation in constructing the new scales, but the committee insistently rejected any suggestion that the divergent pattern of State rates provided any standard against which to judge its proposals. The divergences were what these were intended to abolish.

Specific proposals were that concessional allowances (for dependants, etc.) should in future be made by a rebate of tax and not by reducing taxable income,[2] and that wartime company tax, super tax, and undistributed profits tax should remain at current rates, ordinary income tax on companies being raised to 6s. in the £. (There were special provisions for life assurance companies.)

In all it was estimated that the suggested new taxes would yield the same as would accrue to Commonwealth and States collectively if existing taxes were continued. Within the personal income field, however, the same total would be gained by a modest increase in the degree of progression.

The Government lost no time in implementing these welcome recommendations.[3] The committee had reported on 28th March; on 22nd April a Premiers' Conference was presented with the report, and invited to co-operate in working out details. The Prime Minister and the Treasurer,

[1] This argument cannot be assessed against later employment figures; the Committee's estimate was for existing tax systems, with no other change than introduction of a single income tax imposed on roughly the same group of taxpayers. New taxes, different rates, and widening of the tax field to include lower incomes changed the picture.

[2] This was to meet a long-standing criticism that deduction from taxable income gave the receiver of a large income a double advantage; he saved tax at the highest rate on the amount of the deduction, and the rate on the whole of his remaining income was less because of the deduction. The committee's proposal eliminated the latter effect.

[3] The Treasurer wrote to the chairman a proper and conventional letter of appreciation of his services. It continued with a postscript, in the same impeccable typing as the main letter: "P.S. It's a bloody fine job."

in putting the case for the proposal in principle, traversed familiar ground but, while making clear that the Commonwealth was determined upon the principle, held out the prospect of modifications in detail. The States, however, would have none of it, and the Government went ahead with parliamentary action.

On 18th May the Treasurer introduced four bills embodying the scheme. The interval had been utilised to solve delicate drafting problems to ensure that uniform income taxation would withstand constitutional challenge. A Commonwealth taxing act must relate to taxation only, and practice was to use separate acts to define the structure of an income tax and to prescribe the actual rates of tax. These matters were covered by an Income Tax Assessment Bill and an Income Tax Bill. Neither made any reference to the abolition of State Taxes, to compensation or other related matters, except indirectly in the clause providing that payment of Federal income tax was an obligation which took priority over any State income tax, and in the abolition of the old rebate, for Federal tax purposes, of State income tax paid. In short, the outward form of the bills ignored the States. They might, if they chose, continue to impose income taxes, provided only that the taxpayer must first meet his Federal tax, and any State tax he later had to pay would be wholly an addition to his Federal tax.

No one, of course, had any illusions, and in introducing the several bills, the Treasurer did not attempt to separate the two Income Tax bills from the others, frankly treating the whole set as interrelated. (Later before the High Court, efforts to introduce his speeches to support constitutional attack on the legislation were unsuccessful.)

The other two bills provided for the compulsory transfer to the Commonwealth public service of State income tax officials, and offered the States grants to replace their income taxes. Transfer of officers (and some equipment, etc.) was obviously necessary, and the unwillingness of most States to co-operate actively dictated the use of compulsion. The State Grants (Income Tax Reimbursements) Bill in form embodied the offer of an agreement with each of the States. The Treasurer put it:

> It has been suggested to the governments of the various States that they should refrain from imposing taxes upon incomes for the duration of the war and twelve months thereafter. The Government has undertaken to pay to each State agreeing to that proposal a grant of financial assistance to compensate for the income tax revenue lost to the State.[4]

It was an offer which no State could reject. Continuance of State income taxes was impossible—if the new uniform tax were constitutionally valid

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[4] The amounts offered in the bill were:

New South Wales	£15,356,000
Victoria	6,517,000
Queensland	5,821,000
South Australia	2,361,000
Western Australia	2,523,000
Tasmania	811,000

These were less than those of the committee's report by estimated savings to States by Commonwealth widows' pensions about to be implemented.

—and no State could contemplate refusing compensation for "choosing" not to levy income tax.

But the States did not yield without grumbling and seeking ways of escape. Clearly the vital question was whether the Commonwealth could impose a single high tax scale without regard to State needs. If it could, then all else was lost. The only avenue for the States was therefore legal challenge to the legislation, and for a time it seemed that all would adopt this course. But Tasmanian governments had never been unwilling to allow the Commonwealth to find their revenue, while in New South Wales the government beat a hasty retreat when it became clear that its own supporters were, in this matter, on the side of their party in the Commonwealth Parliament.

Four States (South Australia, Victoria, Queensland and Western Australia) finally took the issue to the High Court which heard argument in the last week of June 1942.[5] Their counsel had a very difficult task. He could, and did, argue that certain of the acts were separately invalid. Thus it was claimed that the *Wartime Arrangements Act*,[6] by compulsorily transferring State staff and equipment was invalid because it would prevent State tax administration functioning; the *Assessment Act*,[7] in giving priority to Commonwealth over State income tax payment was alleged to be improper interference with the obligations of taxpayers of the States; the *Reimbursement Act*[8] was challenged as offering grants on conditions which were alleged to be unconstitutional. Plausible argument could be developed along these lines, but it was somewhat difficult ground. Section 96 of the Commonwealth constitution was quite explicit that grants might be made to States on such terms and conditions as Parliament thought fit, which demanded ingenuity in arguing that a condition that a State should not impose income tax was not authorised by this section. There was more strength, perhaps, in the case against the *Wartime Arrangements Act*—as was indicated by two judges upholding the States on this Act—but it was the least essential of all, though highly convenient. At worst the Commonwealth could have left the States to carry their own tax departments, too large under the new conditions for State needs, and offered inviting terms for voluntary transfers by State officers acting individually. The *Assessment Act* appeared to be spelling out in the particular tax context the general constitutional provision that in the event of Federal and State laws on the same subject conflicting, the Federal law took priority, so that argument against it had to aim at subtle distinctions.

The main burden of the States' case had therefore to rest on attempting to show that the four Acts together formed "a single legislative scheme" the effect of which was to prevent the States exercising their right to levy and collect income tax, and also to impose what was alleged to be discrimination between States in the "uniform" tax. (The argument

[5] For argument and judgments, *Commonwealth Law Reports*, Vol. 65 (1941-42), pp. 373-472.
[6] No. 21 of 1942.
[7] No. 22 of 1942.
[8] No. 20 of 1942.

was that the "uniform" tax was computed on the basis of unequal State taxes plus a previously undiscriminating Federal tax, the sum then being distributed over the whole Commonwealth.)

This was a difficult claim to sustain. The Court summarily refused to admit parliamentary or other records as evidence of the "single scheme", on the established principle that such evidence was only admissible if the language of an Act were obscure—and the present statutes were crystal clear. Connection between the Acts had to be established from the wording of the Acts themselves and, as the drafting of four separate Acts was the work of first-class constitutional lawyers who had in mind precisely the avoidance of any overt relationship between the Acts, it was not surprising that the Court was unanimous in denying the "single legislative scheme".

Judgment was delivered on 23rd July 1942,[9] all five judges upholding the *Income Tax Act*[1] and the *Income Tax Assessment Act*, four of them upholding the *Reimbursement Act* and three the *Wartime Arrangements Act*. This was total defeat for the States, not merely in the formal sense that by majority all the Acts were declared to be valid. The *Arrangements Act*, with the smallest majority, was the least vital to the Commonwealth—and in fact with the main issue lost, the States would have wanted to hand over their main taxing facilities, most of whose use was gone. The Commonwealth's power to impose one uniform tax without regard to State income taxes, and to require that Commonwealth tax be paid first, which all judges upheld, was all that was really needed. The Commonwealth could tax on a scale which would make it politically impossible for a State to remain in the income tax field, and compel it to accept grants under section 96, whether in accordance with the *Reimbursement Act* or otherwise. Worst of all, the reasoning of the judges on the main Acts, while it gave considerable weight to the defence power of the Commonwealth and to the exigencies of war, on key points gave primacy to constitutional clauses (the power to tax, the priority of Federal over State law, the power to make grants on any conditions) which were clearly as applicable in peace as in war. If it were true, as was suggested, that the object of the State actions was to obtain a declaration that uniform tax was valid only under the defence power, the defeat was bitter indeed. For here was clear notice that, if any future Federal government should so decide, the terminal date for the scheme could be abolished—as, of course, happened. Uniform income tax was to be permanent.

Uniform income tax placed a major restriction on the freedom of the States to spend. The process was continued in Loan Council decisions in August, which provided for a reduction of loans for works by one-third. The 1942-43 figure (including £150,000 for non-war works expenditure

[9] High Court practice was for judges to deliver separate judgments with separate statements of reasons; in case of disagreement, verdict was by majority. The process could produce odd results in cases where many points had to be decided if reasons for similar conclusions were widely divergent, but in the present case the large majority and similarities of reasoning left the issue clear.

[1] No. 23 of 1942.

by the Commonwealth) was £7,300,000, £3,300,000 less than in 1941-42. Even more severe was the reduction in approved borrowing by semi-government and local government bodies by £3,400,000 to £1,500,000. Competition with war needs was even further reduced by giving priority to works which had a defence purpose.

There was therefore something of an anti-climax about the budget Chifley presented in September 1942. During 1941-42 tax revenue had exceeded estimates, customs because imports had not been cut as much as expected, excise because consumption of liquor and tobacco had risen, and sales tax because of the increased rates imposed in April and sustained consumer spending.

Non-war expenditure for 1942-43 was forecast at £109,000,000, only £8,000,000 above 1941-42, the main source being £5,500,000 for the new Commonwealth widow's pension and other social services. War expenditure was estimated at £440,000,000 of which £50,000,000 would be overseas. This was £120,000,000 above the 1941-42 figure, so far as then ascertained. Against this, total tax revenue was forecast at £205,000,000 compared with £179,000,000 the previous year.[2]

Apart from the uniform income tax, the only significant new development in taxation was the introduction of an entertainments tax, also replacing similar taxes levied in some States which would receive compensatory payments. For the current year the net gain to Commonwealth revenue was estimated at £1,400,000. Increases in customs and excise, designed to raise £12,000,000 in the remaining nine months of the financial year, were also announced.

The main lines of the new uniform tax had already been embodied in the Act validated by the High Court, and, as noted earlier, necessarily went little beyond providing for uniformity of scales to give estimated revenue about the same as combined State and Federal taxes would have yielded. The *Income Tax Assessment Act* which followed the budget was therefore principally concerned with adjustments, mainly minor, to meet special wartime conditions. Thus plant and machinery used for war work would be subject to special review of its depreciation at the end of the war when owners might seek to establish a case for greater allowance. (Meanwhile, equipment used on three-shift work could enjoy treble the normal depreciation rate.) Expenditure on air raid precautions in connection with the production of taxable income became an allowable deduction. There were special concessions in tax to members of the defence forces with annual incomes below £355. One-fifth of the profits from metalliferous mining was exempted from taxation.

The implication was that substantial amounts would be raised by loans and on 3rd November Curtin announced the opening of an "Austerity" Loan of £100,000,000 of which £22,700,000 was for conversion. To attract maximum subscriptions, the minimum subscription was £10 and tax on interest income carried a rebate of 10 per cent; local government

[2] Amounts to be paid to the States under the uniform tax plan were omitted from both revenue and expenditures.

bodies, which were accumulating unspent funds because of inability to carry out works, were authorised by special regulations to contribute. In mid-December Chifley was able to announce that the highest ever recorded percentage of maturing securities (96 per cent) had been converted, a tribute perhaps less to patriotism than to the effectiveness with which alternative lines of investment had been obstructed. Cash subscriptions exceeded the target by £5,000,000 and there were in all 420,000 individual subscribers.[3]

A week later a Prime Minister's Committee on Movements in Costs and Prices furnished a report which became the foundation of the later prices stabilisation policy,[4] completing the last of the "defences in depth" designed to suppress inflation. The next two years were to test their combined effectiveness.

A first taste of that future came in a financial statement in February 1943.[5] Chifley introduced a proposal which might be regarded as the sugar coating on the pill: the creation of a national welfare fund which would add to existing social services (but only later) "health, sickness, unemployment and many other services" from the Commonwealth rather than the States. The fund was to be fed by annual payments (commencing in July 1943) of £30,000,000 or one-quarter of individual income tax payments, whichever proved to be lower. Meanwhile there were to be some increases in maternity benefits, war pensions and other repatriation benefits, and in old age and invalid pensions.

All those additional benefits and the annual national welfare contribution were proposed to be met by increases in income tax on individuals, estimated to yield in a full year £40,000,000, partly by lowering the exemption limit from £156 to £104 and partly by increasing rates of tax. For personal exertion income the commencing rate was to be 6d. in the £ on the minimum taxable income of £104, rising to a rate of 18s 6d for the excess above £5,000; rates on income from property were to rise more steeply.

In addition the introduction of "pay-as-you-earn" deductions from wages and salaries was announced, to replace the existing system of deductions based on the previous year's income tax liability. Since money incomes in general were higher, the effect would be to raise the current level of deductions.

Chifley proceeded briefly to review war expenditure, explaining that it was now clear that this would exceed the estimate of the previous September by about £100,000,000, of which £30,000,000 would be overseas. His reiteration of a point, already made by Curtin in January, that "we are now faced with the necessity for choosing between maintaining the

[3] The significance of the number of subscribers is somewhat blurred since the most widely and stridently used slogan of the war loans organisation was "Don't leave your money idle in the savings bank; put it into war loan". Economists who tried to point out that this was merely transferring funds from one government pocket to another and undesirably confused money and real resources, found their statements suppressed by censorship.

[4] See Chapter 19.

[5] *Commonwealth Debates* Vol. 173, pp. 548-555.

strength of our fighting forces and maintaining our output of war materials and equipment", was cold comfort even if it implied that the war effort had reached its peak. These additional funds were to be raised by loans.

Reviewing summarily the structure of controls that had been built up—control of banking, direct physical control of resources (especially manpower), price control, rationing—he concluded that in combination they had "made it increasingly difficult for consumers to spend that part of their income which is left after paying taxation. This unspendable margin can find no outlet other than in contributions to war loans, or in idle bank deposits or holding of notes". The last sentence was perhaps over-confident, but the central objective of financial policy was clearly defined.

CHAPTER 13

THE WAR ECONOMY IN MID-PASSAGE

UNTIL well beyond the middle of 1942 the progress of the war almost everywhere was, in Australian eyes, a long series of dismal disasters. War in Europe, in Russia, in the Atlantic, gave little grounds for optimism, even if the thinking and feeling of Australians at large had not been dominated by the inexorable advance of the Japanese towards Australia, and through Thailand and Burma towards India. Invasion appeared an imminent threat and whatever dubious hope might be fostered by occasional bright spots in the news of the faraway war in Europe, the Japanese were at the doorstep, seemingly irresistible.

On 20th May the Allies were finally pushed out of Burma and invasion of India seemed about to happen. On 31st May Japanese midget submarines raided Sydney Harbour. On 21st June Tobruk, in whose earlier long defence against siege Australian troops had taken a major part, was captured. A month later the Japanese landed at Gona in Papua and commenced to advance towards Kokoda and across the Owen Stanley mountains with Port Moresby as their obvious goal. On the night of 25-26th August they landed at Milne Bay, also in Papua. It was possible for Australians to believe that the war would be lost and Australia become a Japanese colony.

Events such as these, following the long tale of Japanese success and Allied disaster which had been almost unbroken since the Japanese first attacked, explained why through eight or nine months of Pacific war Government policy and Service planning had been dominated by the conviction that the maximum possible effort might not be sufficient to avert the ultimate disaster. But less was not acceptable. Australian citizens, with surprisingly little complaint or resistance, accepted the consequences in regimentation and restriction and in curtailment of living standards. As has been demonstrated in various contexts in preceding chapters, the impetuous plunge towards a fully mobilised war economy had gone too far; the Australian economy was over-committed in the sense that, in total, plans for the size of its armed services, munitions and aircraft supply, and war production generally were beyond capacity.

That truth was being recognised in some sections of the administration even while the Japanese were still advancing. But it took time to convince the armed services, and the producers of munitions and aircraft. Eventually they were convinced, but less by logic and statistics than by the changed course of the war which in a few short months was so transformed that it seemed clear that Australia would not be invaded and indeed that however long and hard the way the war would be won. It became increasingly unnecessary to resist the argument of overcommitment as it became clearer that the full effort which plans had envisaged would not be needed.

For Australians, with attention naturally focused on events near at hand, the turning point was September. Not only were the Japanese held

at Milne Bay, but more importantly the Australian counter-offensive in the Owen Stanleys began and went steadily on until Gona was captured on 9th December. Twelve days later British and Indian troops re-entered Burma to begin turning defeat into victory. In the fourth week of January 1943 organised Japanese resistance in Papua was at an end. The Japanese could be defeated and driven back, and by Australian infantry.

From overseas came news of victories on a far grander scale. The battle of El Alamein opened on 23rd October, initiating the final retreat of Axis forces in Africa. Allied landings in North Africa followed on 7th November and by the end of January British forces entered Tripoli almost at the end of their unbroken advance from El Alamein. The war in Africa was virtually over and within six months was to move to Europe itself with the Allied landings in Sicily. Even before the end in Africa the terrible nine hundred day siege of Leningrad had ended (on 18th January) and the German forces at Stalingrad had capitulated. The Japanese could be defeated; the Germans were being defeated.

The growing impact of the war on the economy is best indicated by reference to national accounting figures. If comparison is made between the first full year of war (1940-41) and the third, total direct war expenditure had trebled from £170,000,000 to £537,000,000, or from 15.3 to 36.8 per cent of gross national expenditure. In the same period the total public sector had increased from 23.7 to 42.3 per cent of national expenditure. The chief field in which reduction of public sector activity had contributed to make this scale of war effort possible was public works not related to the war. General administration, education and social service expenditure had remained stable, and continued to do so for the remainder of the war.

In the private sector, investment had been severely curtailed, evidence of the efficiency of capital issues and other financial controls, and of direct control by way of permits for construction, restriction on supplies of materials and equipment, and the transfer of labour to the Services and war production. The fall to around one-fifth of the level immediately before the war was all the more severe in 1942 and 1943 because the initial response to the outbreak of war and the looseness of early wartime policy had been a sharp upward trend in private investment.[1]

The figures for personal consumption must be read bearing in mind that they are money values and incorporate price increases. Nevertheless, they conform with the picture that has emerged in particular contexts in previous chapters. Whatever may have been the misfortunes and deprivations of individuals and groups, overall the Australian population was not suffering such severe curtailment of real consumption as to merit the word hardship. Decline in "wages and salaries paid" referred primarily to the greatly reduced employment of domestic servants, gardeners and the like and could perhaps be dismissed lightly as luxury expenditure.

[1] The revised private investment figures (*National Income and Expenditure 1955-56*) indicate a sharp rise from £113,000,000 in 1938-39 to £157,000,000 in 1939-40, and then a moderate fall, in the circumstances, to £89,000,000 in 1940-41 and to £86,000,000 in 1941-42.

	£ millions, current prices				
	1938-39	1941-42	1942-43	1943-44	1944-45
Net expenditure on goods and services—					
Public Authorities					
Administration	24	27	27	27	29
Education, health, repatriation, etc.	22	23	25	26	28
New works & maintenance	56	37	28	28	32
War	13	308	537	486	385
Total public	115	395	617	567	474
Financial Enterprises	9	10	10	10	10
Exports less Imports, etc.	18	6	22	125	119
Gross private investment	140	85	30	50	90
Private consumption—					
Wages and salaries paid	13	11	7	5	6
Gross rent of dwellings	92	104	104	105	105
Net tourist expenditure, etc.	4	—	1	1	2
Personal insurance	5	6	6	7	7
Other goods and services	553	666	661	626	642
Total private consumption	667	787	779	744	762
Gross National Expenditure	949	1,283	1,458	1.496	1,455

Note: While these figures were revised in *National Income and Expenditure 1955-56,* the revision was accompanied by compression and re-arrangement which reduces their usefulness for the present purpose. For example, an item which "includes overseas war expenditure, recoveries from other administrations, freight paid and recovered on lend-lease goods, payments for requisitioned cargoes expenditure of Allied Forces in Australia, lend-lease settlement" later included diplomatic and consular and other expenditure. In the earlier, but not the later, form addition of this item to "war expenditure" gave a measure of the net absorption of goods and services by the war. Except for data on private investment and components, and an increase in gross totals for market supplies and market expenditure produced by replacing an exports less imports figure by separate ones for exports and imports, the 1955-56 revisions were not large and do not affect statements in the text.

Source: *National Income and Expenditure 1947-48.*

The rise in gross rent of dwellings reflected more than the rise in rents which control did not succeed in completely containing. By late 1941 new housing construction (except for modest amounts of "war workers' housing") had virtually ceased. Those who were already satisfactorily housed and did not have to move were little affected, even by rent increases, but population increase and associated new family formation continued, and very large numbers found themselves in search of accommodation as wartime employment demanded that they move. Those who had to do so after 1941 frequently suffered both in the cost and unsatisfactory nature of inadequate accommodation, a decline in living standards on which the money figures are silent.

The main item under personal consumption—other goods and services —must be interpreted in the light of price increases, and indicates a substantial fall in real consumption even before the outright decline in the money value of consumption by the time the war was at mid-term. Australians continued to be adequately fed, even though with less variety

and with some evidence of dietary deficiency. They did not suffer serious deficiency in clothing, but only because of existing private stocks; those who sought new clothing found their choice restricted and available supplies often unattractive.

But if Australians were not badly off in the basic requirements of food, clothing and housing, in almost all other areas consumption was curtailed by the disappearance of many articles of peacetime use, by rationing, permits to buy, by limited range of choice. Austerity, the word so favoured by Curtin, rather than hardship described the situation. The deprivation was real and the acceptance of 1942 rapidly wore thin as the prospect of invasion was replaced by the confidence a year later that the war would be won.

The pressure of war can also be indicated by the relative movements in the main components of gross national expenditure, and of total taxation and net government borrowing as percentages of that aggregate:

Percentages of Gross National Expenditure

	War Expenditure	Personal Consumption	Total Taxation	Net Public Borrowing
1938-39 . . .	1.4	70.3	14.6	2.8
1941-42 . . .	24.0	61.3	19.9	14.7
1942-43 . . .	36.8	53.4	21.1	24.6
1943-44 . . .	32.5	49.7	21.7	20.5
1944-45 . . .	26.5	52.4	23.5	14.5

The apparent escalation of war expenditure is misleading. In 1938-39 defence expenditure at £13,000,000 was very small and was still only five per cent of national expenditure in 1939-40. But its growth over the next three years was much more impressive. At first the increase in war expenditure was financed largely by borrowing, a seemingly universal rule in the history of war finance in democracies. However, Australia was slow to shift the burden to consumption, and to increase total taxation. By the end of 1942 the new Labour Government had been remarkably successful in paring consumption, in increasing taxation—notably personal taxation—and in reducing dependence on printing money. By the end of the war Labour had transformed the structure of war finance in such a manner as would have gladdened the heart of any orthodox economist: consumption had been held down, taxation had been progressively increased, dependence on loans had been cut, reliance on the printing press had stopped, price inflation had been eliminated.

Those who assessed war commitments in the summer of 1942-43 could fairly, as has been seen, question their practicability. Manpower reserves were virtually exhausted despite the disappearance of unemployment, the recruitment of women, longer hours, greater productivity. Supplies of materials, machine tools and the like demanded by munitions and aircraft plans were inadequate. The answer seemed plainer the more the facts accumulated: in total the plans could not be achieved.

But the facts implied another question not yet explicitly asked. As the threat of invasion receded, so the role of Australia in the war changed,

at least in the thinking of those who in the end determined it. In the island-hopping counter-offensive by which the Japanese forces were to be driven back, there could only be limited deployment of the army Australia had built up and less than full employment even for much of the munitions already being produced, still more so for what was in the pipeline or being planned.

In short, was the massive war effort, measured roughly by the *ex post* national accounts, to be required after all? In December 1941 an objective which contemplated nothing less than the maximum possible appeared the only acceptable and realistic one. By early 1943 it was becoming clear not only that current plans went beyond what was possible, but that what was already being achieved had turned out happily to be more than was needed.

While it was plain that Australia's role in the war would change in 1943, there was much room for argument about the direction of change. Early 1943 was a period of great uncertainty about the future conduct of the war in the Pacific. It was a time of recovery from the perils of 1942 in both Europe and the Pacific, and consolidation before launching counter-offensives. In January Churchill and Roosevelt decided at Casablanca that the European theatre should have priority, and that the Pacific war would have last call on Allied resources until after the defeat of Germany was assured. In these circumstances there were several options available. Australia could attempt to maintain the full mobilisation achieved at the end of 1942 in the hope that a significant addition could be made to the ability of the Allies to attack in the Pacific. If this was attempted the consequences were even tighter economic regimentation, a further decline in civilian living standards, and almost complete failure to meet essential United Kingdom requirements for food and raw materials. It might also have meant failure to meet a large proportion of reciprocal aid requisitions of the United States. Nevertheless, there was strong pressure on the Government to maintain intact the authorised level of the Services and of munitions production. The military leadership believed, understandably, that they should be allowed to follow their success at Milne Bay and in the Owen Stanleys by participation in more decisive victories as the Japanese retreated north. MacArthur insisted that Australia provide him with as large a force as possible, and most Australians expected their troops to be involved conspicuously in military retaliation.

The contrary view was that Australia could not and need not retain the Order of Battle as authorised in 1942. As noted, manpower reserves were exhausted, which meant that casualties could not be fully replaced. But even if it had been possible to maintain the Army at full strength it was improbable that the additional men could have affected the overall strategic balance. In 1942 every last man was vital and Australians carried the burden of the land defence in Papua. In 1943, following the massive build up of American forces, the availability of one or two

additional Australian divisions was not of major strategic significance. These men could be of great value in the production of food and other supplies as part of the indirect war effort. Indeed, it was argued by rationalists in London and Washington that Australia could contribute most by substantially reducing her military involvement and by directing released manpower to indirect war production. In Washington the logic of the argument was compelling. Australia was the natural supply base for the Pacific region, and by 1943 Australian production had been attuned to meet a wide range of American needs. The argument also carried weight in London as war in Europe entered its fourth year and as United Kingdom food and other supplies dwindled. It was unrealistic to believe that Australia could abandon her direct military involvement in the war. On the grounds of efficiency, however, there was a strong case for altering the balance of the war economy as well as for eliminating excessive claims on total resources.

The manner of resolution of these competing arguments throws light on the characteristics of wartime economic policy. Formally the decision-making process was highly centralised. Ultimately all major decisions were taken by the small group of Ministers which comprised the War Cabinet. The important military and economic strands of war policy were brought together by decisions of that group. By early 1943 the network of controls and regulations was sufficiently comprehensive for the Government to be able to have imperative authority over the detailed structure of the economy. At this time Australia had more of the characteristics of what has been described as a "command economy" than in any period since the end of convict transportation.

But this outline oversimplifies the structure of power at mid-point in the war. Like all authorities at the centre of power, the War Cabinet was dependent on its bureaucracy. Since the outbreak of the Pacific war the dominant influence on the War Cabinet had of necessity been the Chiefs-of-Staff sitting as the Defence Committee. Parallel lines of influence ran from MacArthur and Blamey to the Prime Minister. There was no room for concern in 1942 about the appropriate balance between enlistment, war, and civilian production; nor was there time to consider the possibility of overcommitment of resources. All military demands had to be met because the consequences of not doing so seemed too terrible to contemplate.

As elaborated in subsequent chapters the collective thinking of the War Cabinet was dominated in 1943 by the search for a new basis for war policy. With the threat of invasion removed senior Ministers knew that the existing level of the war commitment could not be sustained for long. They knew, too, that the electorate expected early relief from the restrictions and hardship which had only been accepted in the extreme circumstances of 1942. This implied a reduction in the strength of the Services and in the amount of labour involved in munitions production. But the military leadership could not accept a reduced role at that stage in the war when defeat was being transformed into victory. The proposal

cut across every instinct of the professional soldier. It also struck a blow at the ambitions of the Department of Munitions. As a consequence the War Cabinet did not receive the information and advice it sought in the first half of 1943. Modified plans for the deployment of the Services were delayed. In the case of munitions production the War Cabinet's instructions were ignored and then, when the instructions were repeated, information of dubious accuracy was presented. Part of the difficulty confronting the Chiefs-of-Staff was poor communication between Blamey and MacArthur. For much of 1943 the Defence Committee was uncertain of the part Australia would play in the counter-offensive and as a result it did not know in detail the size of the forces required. But underlying the tactics of the defence chiefs was a straightforward case of self-interest.

The decision on the future of the war economy was delayed until October 1943. The War Cabinet instructed that 40,000 men were to be released from the Services and from munitions production, for food production and other high priority requirements in the "indirect" war sector of the economy. The releases were to be completed by June 1944. This was a very tentative step indeed and did little to alter the balance of the economy. Nor did it reduce appreciably the excessive claims on resources. Since the beginning of the year these claims had increased steadily, notably in the form of United States requisitions for reciprocal aid under the Mutual Aid Agreement. On the other side of the coin, the amount of labour available had ceased to grow for the first time since the outbreak of the war. Indeed, the efficiency of the civilian work force began to decline as the threat of invasion and defeat receded, and due in part to the increased average age of workers, and deterioration in the stock of capital equipment. In short, the War Cabinet's move was not made early enough and was not large enough to reduce excessive claims on dwindling resources. More decisive action was taken in 1944, but the pool of available civilian resources was falling more rapidly than in the previous year. The war ended with the degree of repressed inflation as great as in 1943. The central policy dilemma of the final phase of the war was that the Australian people expected their armed forces to play a prominent part in the military defeat of Japan and to occupy an honoured place at the surrender table. At the same time they sought relief from the austerity of 1942-43. The Government sought to fulfil both of these expectations but was unable to satisfy either.

The slow decline in the burden of war can be amplified by further reference to national accounting figures. At first sight the fall in war expenditure from £537,000,000 in 1942-43 to £385,000,000 in 1944-45 (due mostly to the decline in munitions production and in reciprocal aid to the United States) might indicate a substantial easing of the pressure of war. But this is deceptive. The reduction in war expenditure was counterbalanced by an increase in net exports (largely to the United Kingdom). Part of this change was due simply to a shift from reciprocal aid for United States forces to exports for the United Kingdom and

adjacent Pacific Islands. A further part was due to a modest reallocation of resources from direct war use at home to indirect war use abroad as most of the increased exports took the form of food and raw materials. It should be noted, however, that this reallocation was on a small scale and fell far short of what was envisaged by Allied planners at the beginning of 1943. The notable feature of the national accounts was the absence of any rise in personal consumption over the final three years of war. Indeed, consumption fell below fifty per cent of gross national expenditure for the first time in 1943-44, and the proportion in 1944-45 was lower than in 1942-43. After allowing for the rise in civilian population in the final year of the war, living standards were probably at their lowest point in 1944-45.

An additional feature of note was the behaviour of private investment. The national accounts as presented in the table at the beginning of this chapter indicate a lift in gross private investment at the end of the war, but these figures were revised in 1955-56 and the estimate lowered appreciably. The revised estimates, expressed as a percentage of gross national product, were as follows:

1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45
12.2	15.4	8.2	6.8	2.7	2.3	2.5

These figures confirm the impression obtained from other sources that the door was kept shut very tightly against private investment after the advent of the Labour Government. Indeed, the volume of new investment was well below the amount required to maintain intact the stock of private capital. In other words, private assets deteriorated markedly and by the end of the war there was, for example, a massive short-fall in the supply of housing.

The tight control of private investment was indicative of the Government's economic administration in the post-crisis period. The circumstances of war inevitably produce their fair share of rough-and-ready policy and administration, but by 1943 the Curtin Government had devised a well integrated economic package designed to achieve and maintain the maximum transfer of resources for the purposes of war. Perhaps only a Labour Government had the political conviction to repress private interests with the necessary degree of insensitivity. But the profit motive was used when the circumstances were appropriate, notably in munitions and food production. Labor Party principles were always close to the surface but only rarely were they allowed to interfere with the requirements of war. The irony was that the Labor Party, historically pacifist, found that in government it was more a captive of the military activists than of its own ideological bedfellows.

In the Labour Government's first year the major economic threat was uncontrolled inflation. By 1943 this was brought under effective control in three ways. First, a ceiling was imposed on retail prices and, as will be seen in a later chapter, subsidies were paid on essential goods to compensate for increases in costs. Second, as noted earlier, there was a decisive

move away from the use of central bank credit to finance war expenditure. Third, wage control was administered forcefully and fairly. The underlying inflationary pressure remained, but this was not translated into general price increases (the black market notwithstanding) until well after the end of the war.

By the end of the war Australia's economic institutions and administrative arrangements were to be transformed beyond recognition. Uniform taxation had been introduced, thus eliminating the nightmare for central policy direction of six separate taxation structures. Pay-as-you-earn instalment deductions were to be added as a sequel. After a prolonged period of wrangling before the war, effective control of the trading banks by the central bank was introduced temporarily in 1941 and was to become permanent in 1945. The high international liquidity of the late war years was to be used to redeem a sizeable proportion of the overseas debt, and the age-old problem of overseas debt service was to be removed. The Treasury discovered and embraced Keynesian economics. The Commonwealth acquired permanently much of the bureaucracy of the States and their better equipped officials.

But the change which was to be of the greatest long-term significance was to be the realization that the economic system could be administered in such a way as to provide continuous employment for the vast majority of the working population. Australia was not alone in embracing full employment as the cardinal doctrine of post-war economic policy, but she did so with more single-mindedness than most other countries. As soon as the threat of invasion had receded, a growing proportion of the Government's time was devoted to post-war planning. The centre of attention was demand management: the avoidance of excessive demand in the early post-war period and a short-fall following the expected post-war boom. This involved more than the development of techniques for the regulation of domestic expenditure. Almost from the outset Government advisers accepted that international demand was as important for Australia as domestic demand, and at a long series of international conferences Australian delegates pressed the view with some success that the major trading countries should adhere to a full employment convention. At home, from the mid-years of the war onwards, plans and planners were to multiply. There were plans for the transformation of public housing, for regional development, for northern Australia, for improved amenities in rural areas, for the establishment of new industries including motor vehicle manufacture, for an integrated system of national works. There were plans, too, for the initiation of post-war projects—particularly housing—well before the end of the war so that there would be a continuous demand for labour as servicemen were demobilised. Few of these plans were to emerge in acceptable form or survive much beyond V-J Day. Early preparation for conversion was severely restricted because of the prolonged over-commitment of resources. Others foundered either on the Constitution or were deleted by the Treasury. But what was to survive was the abiding commitment to full employment.

CHAPTER 14

REASSESSING MANPOWER PRIORITIES

IN SEARCH OF POLICY

BY January 1943 the facts about the critical shortage of labour in all branches of the economy had been established. The facts were simple and, in substance, incontrovertible. Out of a working population of about 3,200,000 at the end of 1942, net enlistments in the forces amounted to 689,000 (of which 33,000 were women). Another 173,000 were employed in war production departments and the Allied Works Council, but these figures do not include sub-contractors. In total it is likely that about 1,000,000 men and women were engaged in the "direct" war effort. Probably as many again were employed in the equally essential tasks of supplying Australian and Allied forces with food, clothing, transport and administrative services. In short, the deployment of Australian labour for war purposes had reached its limit. Small quantities of additional manpower could perhaps be squeezed out of the civilian population by a combination of such devices as the extension of rationing, more stringent control of prices, further trade dilution, and greater employment of women. Some increase in the efficiency of labour might also be obtained by ruthless use of the power of direction and by prosecution of absentees, although there were clear limits to the effective use of these instruments. But even on the most optimistic assessment very little could be expected from further combing of civilian employment, and even then the labour so obtained was likely to be of indifferent quality.

The rapid depletion of manpower resources was presented to War Cabinet in terms of a drastic decline in the monthly rate of diversion to the "direct" war effort. In the first six months of 1942 a remarkable 42,500 persons per month had been added to the Forces and production departments, but between July and September the number had fallen away to 17,000 per month and would have been 10,000 per month in the final quarter of the year. Yet to maintain at full strength the approved Order of Battle and complete authorised munitions programmes, it was estimated that a total of 136,000 men and 62,000 women would need to be "diverted" by June 1943—a withdrawal of labour from civilian employment at a rate of 33,000 per month. A more realistic figure was 10,000 per month.

The fall in the rate of diversion was however merely the tip of the iceberg. Of greater economic significance was the extreme shortage of many types of skilled labour. Well before the end of 1942 civilian production had given up the bulk of its skilled tradesmen and technicians and their places had been taken by less experienced and generally less proficient workers. Rapid on-the-job training and dilution had prevented serious disruption of production, but it was evident that the supply of skilled labour could be stretched no further. Nevertheless, the Manpower Directorate estimated that if existing programmes were to be completed

an additional 11,581 skilled tradesmen were required for munitions, shipbuilding and aircraft production between January and June 1943. Further, in a number of key industries reduction in the quality and quantity of workers had proceeded to a point which was clearly inconsistent with Australia's war commitments. The problem of maintaining output of strategic minerals received the attention of War Cabinet early in 1943 and proved to be a continuing source of difficulty. Shortage of transport operators and maintenance men imposed a severe constraint on the movement of materials and of the armed forces. Maintenance of buildings, roads and earthworks had been cut to the bone by the diversion of labour to the Allied Works Council. There was also a desperate shortage of timber, partly because of the fall in imports and partly because of the lack of men to exploit Australian sources.

But the most damaging labour problem existed in rural industries. The land had of course been a prime source of fit young men for enlistment. A survey by the Department of War Organisation of Industry revealed in July 1942 that the rural work force was down to 68 per cent of its pre-war strength. The real decline was even greater, for by the end of 1942 two-thirds of men in the 18-45 age group had been withdrawn. As early as May 1942 the call-up and enlistment of rural men had been suspended, although many farm workers were drawn to factory employment attracted by higher wages and superior working conditions.[1] Rural output therefore tended to fall well behind requirements, requirements which were rising steadily with the build-up of American forces in the South-West Pacific Area and the growing food crisis in Europe. In such labour intensive industries as dairying the position was already critical by the end of 1942, and some farmers had been forced to slaughter cows and terminate milking before the end of the season. In other ways, too, labour scarcity forced shifts in the composition of output in ways which were frequently inconsistent with war requirements, such as the movement from dairying to fat cattle raising. The necessary expansion of some of the smaller industries such as vegetables, pigmeat, tobacco, peanuts, fruit, rice, eggs, dried fruit and flax was seriously retarded, while the manpower authorities experienced considerable difficulty in mobilising sufficient labour to meet peak seasonal demand for harvesting, shearing, vegetable and fruit picking (and canning), and cane cutting.

The situation clearly required a major overhaul of manpower commitments and, beyond that, a reappraisal of the nature of the Australian war effort. A few tentative steps had been taken in this direction by the end of 1942. As recounted in Chapter 2, the Full Cabinet had appointed a special War Commitments Committee in September to "review war commitments in the light of altered conditions"[2] and subsequently the Defence Committee was instructed to re-examine its manpower and material requirements. The first report of the War Commitments Com-

[1] An attempt was made to control the movement of labour from rural industries to factory employment by the introduction of controls on the engagement of labour through Statutory Rules 1942, No. 345, 4 Aug.

[2] Full Cabinet Minute, 22 Sep 1942.

mittee was not completed until January 1943 but the delay, coupled with the accumulation of further evidence about the deterioration in labour supply, added force to the committee's recommendations. The most significant step was the acceptance by War Cabinet of the recommendation that the Defence Committee should expedite its review of manpower requirements and production programmes. Behind this direction lay a growing conviction by a majority of Cabinet Ministers that the limit of diversion of resources to the direct war effort was approaching, a view encouraged by the declining threat of invasion.

The new attitude of War Cabinet presaged a series of complex shifts in the higher direction of the war effort. Since Pearl Harbour the Defence Committee and the Forces generally had carried a virtual blank cheque on the nation's resources subject only to minimum effective control by War Cabinet. In view of the need for rapid and complete mobilisation in the emergency, such an arrangement was indispensable; but during the early months of 1943 the relationship between War Cabinet and the Defence Committee changed, with the former exercising a more detailed and critical control over submissions by the Chiefs of Staff and war production departments. To a large extent this was due, of course, to the growing manpower crisis and the brighter military prospects. But it was due also to the growing experience and confidence of the War Cabinet itself. As will be seen, evidence accumulated steadily that as a result of 1942 practice War Cabinet had to some extent lost control of the direct war effort in important ways: directions about the production and assignment of munitions had not been followed; urgent reviews of policy which had been ordered had not received the appropriate priority; and the Americans appeared to be able to requisition supplies without central oversight. Interwoven with the manpower story of 1943 and early 1944, therefore, is the attempt by War Cabinet to reassert its authority and redefine policy priorities. On both counts the attempt met with limited success and until the final twelve months or so of the Pacific war the direction of the total war effort meandered between a number of largely conflicting policy objectives.

The task of advising War Cabinet on the means of achieving a balanced war effort fell increasingly during 1943 to the War Commitments Committee. Formed in September 1942 to report on the manpower outlook for the first half of 1943, the committee became in effect the War Cabinet's standing committee on resource allocation. At first the committee's functions were not clearly defined and appear to have been restricted to specific manpower problems, but in May 1943 these functions were identified and extended to include all broad aspects of manpower organisation for the total war effort. The committee was authorised:

1. To advise the Minister for Defence of the total man and woman power required to meet the various commitments already undertaken or in contemplation by the Service, Production and Procurement Departments, and to estimate the volume of man and woman power which is likely to become available during the period under review for these purposes.

2. To submit to the Minister for Defence any comments or representations which the Committee thinks appropriate concerning the manpower programme as a whole and the extent to which manpower shortages will limit the fulfilment or defer the completion of the total war programme.

3. To recommend to the Minister for Defence any scheme or formula which appears to the Committee to be suitable, for the disposition of the man and woman power which can be made available during any specified period, and to suggest any restrictions of recruitment or employment by any Service or Department or industrial group, which appear to the Committee to be necessary to ensure the optimum utilisation of the available manpower resources.

4. To recommend to the Minister for Defence for transmission to the Minister for War Organisation of Industry any measures or restrictions which appear to be necessary to secure or release the supplies of man or woman power for the total war programme which it is estimated can be made available.

5. To receive reports from all Departments of the action taken to implement approved recommendations of the War Commitments Committee, and to submit appropriate observations to the Minister.

6. To report to the Minister for Defence as required on matters related to manpower aspects of new projects or extensions of existing projects or procurement programmes that cannot be undertaken with the labour supplies already allocated to the Services, Production or Procurement Departments, as the case may be.

7. Generally to make such reports or recommendations to the Minister for Defence, on the current manpower situation, as may seem desirable to the Committee, either from the viewpoint of Australian programmes, or in the light of the total requirements of the United Nations.[3]

This wide ranging brief was restricted only in so far as recommendations which affected the Navy, Army and Air Force were to be submitted to the respective Service for consideration, while matters which affected defence policy were to receive prior examination by the Defence Department and (if necessary) by General MacArthur.

The Committee was composed of the nucleus of the Defence Committee (the First Naval Member, the Chief of the General Staff and the Chief of the Air Staff); representatives of the principal production and procurement organisations (the Directors-General of Munitions, Aircraft Production, and Allied Works, and the chairman of the Standing Committee of the Allied Supply Council); and the senior officials of the two civilian departments most directly concerned with manpower questions (the Directors-General of Manpower and of War Organisation of Industry). This membership ensured the committee the highest status, approximately equivalent of that of the Defence Committee; but the most significant feature was that two essentially civilian departments were brought within the ambit of the higher defence organisation. The defence representatives were, therefore, confronted with the realities of the manpower crisis more directly than had previously been the case, and War Cabinet was able to judge in a coherent way the consequences of defence submissions. Formally, the division of responsibility was that the War Commitments Committee was to determine the total supply of manpower that, consistent with government policy, could be made available to the direct war effort, while the Defence Committee's task was to allocate this manpower between

[3] War Cabinet Minute 2843, 14 May 1943.

Today's Armstrong **"WHERE IS EVERYBODY?"**



Armstrong in Argus (*Melbourne*), *27 Jan 1943.*

claimant departments within the defence structure (including munitions, aircraft production, allied works, shipbuilding and ship repair). But such a division of responsibility had little meaning in substance, for during the first half of 1943 there was no clearly specified government policy. As the principal protagonist for the indirect war effort, the Manpower Directorate (with intermittent support of War Organisation of Industry) found itself, therefore, aligned against the combined strength of the Defence structure. Given the links which had been forged between the War Cabinet and the Defence Department since the outbreak of war, there were many ways available to Defence for avoiding or delaying the recommendations of the Manpower Directorate. It was due mainly to Wallace Wurth's persistence and stubborn refusal to be sidetracked, together with the high quality of the Manpower Directorate's submissions, that the War Commitments Committee survived the manpower showdown with an enhanced status as an instrument of policy formation. Wurth fashioned the committee into an agency of the Manpower Directorate. Although Curtin presided over several of the early meetings, the Director-General of Manpower became the permanent chairman. He introduced all major initiatives, was responsible for framing the bulk of recommendations, and was delegated the task of policing the War Cabinet decisions that were taken. Ultimately the committee's overt achievements were limited, but the degree of "balancing" of the war effort obtained was due largely to Wurth's efforts.

The dimensions of the manpower shortage having been established, at least by those responsible for the civilian economy, the Director-General of Manpower set out to reduce the official forecasts of labour requirements by the Services to the estimated supply of about 10,000 per month. This was to be achieved, hopefully, by selling the concept of "manpower rationing". At the second meeting of the War Commitments Committee on 22nd February, Wurth insisted "there must be a planned system of rationing of manpower between the principal users, to ensure that our programmes of reinforcement and production may, in fact, be realised and are not paper programmes which the simple arithmetic of the population can expose as impossible of attainment". "Manpower rationing" became the theme of most War Commitments Committee meetings for the next six months, but behind the mild euphemism lay an important principle which had not yet been accepted by the defence group of departments. Every additional demand for labour at this stage meant inevitably the sacrifice of some other activity. In the absence of any central overview of manpower priorities, the creation of a new demand might lower rather than increase the country's contribution to the war effort. A much more fundamental principle was therefore involved than simply formalising the supply and demand equation.

Nevertheless, even this exercise in arithmetic proved to be very difficult. At the third meeting of the War Commitments Committee on 16th April the manpower absorbing authorities presented reviews which had been requested the previous January. The events of the intervening three



"Righto ! Boys, get your identity cards ready—we're from the Manpower !"

Dixon in Smith's Weekly *(Sydney), 26 Jun 1943.*

months had apparently made little impression. It is true that some programmes had been brought a little closer to reality. The Navy's projected intake had been cut in half to 500 per month, and under heavy pressure from several sources Munitions had been forced to give up about 2,000 per month (although the revision made no allowance for orders from the United States forces). But the Army's programme involved a gross recruitment of 10,000 per month (compared with about 15,000 previously), a figure necessary to provide for high wastage rates in New Guinea and to contribute towards eliminating the deficiency on its war establishment. The Air Force figure had been reduced from 5,700 to 4,500 per month (later raised to 5,000), again to provide for establishment deficiency and wastage, and to proceed with expansion on a 45 squadron basis. In addition, the Allied Works Council's programme involved a further 20,552 men by 30th June, and Aircraft Production reported a need for 3,680 women and 3,300 men by the same date. The Department of Supply had been unable to make any reduction in its requirements. When tallied the total projected programme was still more than double the estimated labour supply of 10,000 per month. But Wurth was not yet in a position to force a direct confrontation. The War Commitments Committee knew that these figures were more or less out-of-date as they were presented, and were little more than "position papers" for the concurrent struggle within the Defence Committee. The War Commitments Committee therefore sidestepped the issue for the moment by recommending that the Defence Committee undertake a further review of the munitions programme.

The April review, however, did precipitate firm action by War Cabinet to curb the uncontrolled bidding for labour by war production departments, a decision which was linked with the growing concern about the excessive delay in preparing a consolidated munitions programme and the unchecked growth of overseas assignment of weapons and ammunition. The parliamentary debate on war policy and the use of conscripts in the South-West Pacific Area[4] emphasised that the Government's priorities for the war against Japan in 1943 were to consolidate resources within Australia and its territories so as to provide an adequate defence of the coastline, and to strengthen the mainland as a supply base for MacArthur's command. The maximum possible contribution to MacArthur's strike force would then be provided, but military contributions to other theatres could not be considered until the defence of the South-West Pacific Area had been secured. As the Prime Minister made plain on 3rd February:

> I consider it a fallacy to suggest that a small nation like Australia, confronted with the problem of defending a large continent with a small population, should be expected, when faced with a life and death struggle in its own region, to send forces to other theatres. . . . It is a plain fact that Australia's strength is not sufficient to meet all the contingencies of the military situation with which it may at any time be confronted, and the strength of the Allied Forces in the South-West Pacific Area is inadequate to provide for more than a holding strategy with limited offensive action.[5]

[4] *Commonwealth Debates*, Vol. 173, pp. 22ff, 264ff.
[5] *Commonwealth Debates*, Vol. 173, p. 268.

The same argument applied to the excessive export of weapons and ammunition. Thus when the Defence Committee's proposals for overseas assignment of munitions for April and May ignored the new emphasis in war policy (and were presented without the long awaited consolidation of munitions programmes), War Cabinet issued a rebuke in the most uncompromising terms:

> Notwithstanding the repeated directions over a prolonged period, it does not appear to War Cabinet that the actions of the Defence Committee and the associated Departments, particularly the Department of the Army, indicate an adequate realisation of the importance and urgency of the following implications . . . the assignment [of weapons and ammunition] overseas: (i) The manpower situation; (ii) The grave delay in determining a firm basis for assignment of surplus production in relation to a diversion of manpower and productive capacity to other urgent needs.[6]

War Cabinet reminded the Services that "the only important fields from which young and fit men can be recruited are war production and other essential industries", so that some reduction in munitions production is necessary merely to maintain the strength of the Forces. The minute continued,

> The only sound basis on which Defence Committee can operate is with the knowledge of what precisely is our surplus capacity after reviewing the manpower and material requirements . . . in relation to our resources. Instead of ascertaining this, it has pressed on assigning surpluses on the basis of present production.

It was directed, therefore, that "future assignments should be related to the allocation of our resources in accordance with our own needs and priorities".

While this episode marked a turning point in the approach to submissions by the manpower users, there was a considerable (and to some extent inevitable) lag in their appreciation of the new situation. The unrealistic April submissions on manpower needs of the Services and war production departments coincided with the report on the consolidated munitions programme by the Defence Committee. Details will be pursued later, but the report contributed little to the achievement of a "balanced war effort". Some programmes were reduced, such as the production of gun ammunition, but not to an extent which would allow high priority projects with the Munitions-Aircraft bloc to meet their labour needs.[7] For the present, therefore, the bloc would continue as a net claimant on labour resources, but War Cabinet was clearly deeply dissatisfied and directed further urgent re-examination of the situation by the Defence Committee, the War Commitments Committee and General MacArthur.[8] At about the same time it was revealed that the Department of Munitions had been exceeding its authority by accepting orders before the receipt of Cabinet approval and irrespective of the manpower implications.[9] In

[6] War Cabinet Minute 2714, 23 Mar 1943.

[7] War Cabinet Agendum 169/1943.

[8] War Cabinet Minute 2771, 15 Apr 1943.

[9] For example, the acceptance of an order to build small craft for the Americans at a cost of £10,000,000 which is "beyond our capacity to fulfil", War Cabinet Minute 2846, 14 May 1943.

these circumstances a recommendation from the War Commitments Committee that, in future, any plans for expansion by the Services or war production departments should be subject to control by the Manpower Directorate fell on receptive ears. On 14th May War Cabinet ordered that any submissions from a Minister involving further expansion of any of the Services, or any additional projects within the province of the Departments of Munitions and Aircraft Production or the Allied Works Council, must be accompanied by a certificate to the effect that the necessary manpower could be provided in one or more of the following ways:

(a) from within the resources already at the disposal of the Services or Department in question . . .;
(b) by transfer with the approval of the Defence Committee from one Department or Service to another;
(c) from the quota of newly available manpower which the Defence Committee has allocated out of the total which according to the War Commitments Committee can be made available (at present a maximum of 10,000 per month).[1]

Thus, the essentials of manpower rationing had been accepted. The Manpower Directorate through the War Commitments Committee had been given authority to equate labour supply and demand, and to achieve balance by the means recommended by that committee. Even more important was the degree of centralisation of control that had been authorised over the nation's scarcest resource. Through the issue of manpower certificates the Manpower Directorate now exercised authority (although qualified) over defence as well as non-defence users of manpower, and was in a much better position to press for a total reassessment of the allocation of resources.

The remaining formalities of the rationing formula were completed early in June.[2] By this stage the Defence Committee had accepted the inevitability of a heavy reduction in the desired rate of recruitment, and was prepared to equate requirements with the rate of diversion that had been achieved between January and May 1943. As presented by the Director-General of Manpower, the gross intake of men into the three Services and the Allied Works Council had averaged 10,400 per month as follows:

	Jan	Feb	Mar	Apr	May	Average
Three Services	8,600	7,900	10,800	8,300	7,600	8,600
Allied Works	1,000	1,700	1,900	1,500	3,000	1,800
	9,600	9,600	12,700	9,800	10,600	10,400

But the Air Force had recruited 350 men per month from the Army, so the average gross rate was nearer to 10,000 per month. In addition, the average rate of recruitment of women for the Women's Auxiliaries had been about 2,000 per month. This gave a gross total of 12,000 per month which was the *maximum* rate of diversion which on present trends could

[1] War Cabinet Minute 2844, 14 May 1943; Agendum 228/1943.
[2] Fourth meeting of War Commitments Committee, 8 Jun 1943.

be achieved. As agreed by the Defence Committee, enlistment was apportioned according to the following target figures:

	Gross Monthly Rate of Intake		
	Men	Women	Persons
Army	4,000	1,500	5,500
Navy	500	—	500
Air Force	3,500	500	4,000
Allied Works	2,000	—	2,000
Total	10,000	2,000	12,000

Male employment in war production departments was to be kept constant, but older men and discharged members of the Forces were to replace as rapidly as possible fit and young male munitions workers who would be subject to call-up. The additional labour needs of war production would be provided by increasing female employment by a net 2,000 per month or by reallocation of labour within the munitions group. But Wallace Wurth warned that this total limit of diversion "will require considerable administrative effort to attain" and that

> The success of the scheme will clearly depend upon the acceptance of the principle that all special and emergency demands for manpower must be brought within these limits: it is a negation of the first principle of rationing to set a limit which excludes emergency demands and special drives for manpower.

Although acceptance of the rationing principle and formula was an important step forward, the feature of the first half of 1943 was the failure to integrate the requirements of the direct and indirect war efforts. Despite the endless reviews and the almost continuous work of several committees, the defence sector had been required merely to submit to some control over its claim on resources—a control determined primarily by the exhaustion of manpower in the prime age groups. In the absence of a full assessment of resource allocation, additional manpower had been diverted to the direct war effort, further commitments had been accepted (mainly the reciprocal aid for the United States forces) and, as a result, the war economy was more seriously unbalanced than at any previous stage. A summary prepared by the Commonwealth Statistician for June-July 1943[3] revealed that 50 per cent of men in the 18 to 40 age group were enlisted in the Services, about the same proportion as in the United Kingdom and a significantly higher proportion than in Canada and the United States. Further, 47 per cent of the total male work force was engaged in direct war work, and that there was no reserve of males to be brought into employment except for schoolboys, the sick and disabled and those over 60 years of age. There remained, as before, a substantial reserve of unmarried women despite the partially successful efforts to accelerate female employment. But there were clear limits to the effective substitution of women for men, and even under emergency conditions the

[3] Commonwealth Bureau of Census and Statistics, Memorandum on Total Manpower, 7 Aug 1943.

process had been fairly slow and was likely to be even slower with the greatly improved military outlook of mid-1943.

AUSTRALIAN MALE AND FEMALE EMPLOYMENT, 1939 AND 1943
(thousands)

	Males		Females	
	Sep 1939	Jun 1943	Sep 1939	Jun 1943
1. Defence Forces	14	694	—	45
2. Allied Works	—	48	—	—
3. Munitions bloc	11	91	1	39
4. Other war production	—	320	—	106
5. Direct war work (sub-total)	25	1,153	1	190
6. Civil manufacturing	400	118	149	82
7. Rural industries	500	382	20	39
8. Other employment	1,180	866	474	496
9. Total civil and indirect war (sub-total)	2,080	1,366	643	617
10. Total employment	2,105	2,519	644	807

Notes:

The figures are unrevised.

Row 1, including deaths, prisoners of war, missing, discharged unfit, but excludes ordinary discharges.

Row 3, government and semi-government employment in munitions, aircraft production and shipbuilding establishments and annexes.

Row 4, primarily private munitions contractors and those employed directly by Allied governments. Figures are a rough approximation.

Source: Commonwealth Bureau of Census and Statistics, Memorandum on Total Manpower, 7 Aug 1943, and as amended by Memorandum of 10 Jul 1944.

With the advantage of hindsight it appears likely that the protracted delay in attempting to rectify the manpower situation was the decisive factor which determined the shape of the economy for the remainder of the conflict, and also the effectiveness of preparations for post-war reconstruction. As will be seen shortly, a concerted effort was made in October 1943 to change the allocation of labour resources but little had been achieved by the end of the year. For the whole of 1943, therefore, manpower was deployed in a way consistent with the blockade conditions of early 1942 but seriously out of step with the scheme of military and economic specialisation that had been developed by the United Kingdom and the United States (and accepted in principle by Australia) for the final stages of the war in Europe and the Pacific.

Although War Cabinet and the Prime Minister must share some of the responsibility for the unnecessarily prolonged period of overcommitment, it would be a serious oversimplification to suggest that high level government policy was primarily at fault. As noted above, Curtin redefined policy priorities clearly, and with as much precision as security allowed,

in the parliamentary debate on war policy as early as January 1943. The message was repeated in February, and in more detail at successive War Cabinet meetings. But the policy directives were not followed up with the vigour and imagination which the situation warranted and the Government demanded. The Defence Department and the Chiefs of Staff reacted, at best, in a leisurely fashion to calls for reports and reviews, complaining always of the complexity of their task and the wastage involved in hasty decisions. For its part War Cabinet failed to follow up its initial directives in detail or with the speed required. The vacuum permitted an unmitigated struggle for resources between the civilian and defence authorities. Ultimately the struggle was resolved only after the exhaustion of supplies of manpower and when a detailed decision could be delayed no longer.

However, the avoidance of unpalatable decisions was only part of the story. The indecision reflected, as well, the fact that Australia was a minor link in the chain of Allied command. Canberra was dependent on London and Washington for broad military and economic strategy, and on General MacArthur for tactical initiative in the South-West Pacific Area. Australia's particular difficulties were acknowledged, mainly by MacArthur; but they could not weigh significantly in the development of high policy. Thus, the Defence Committee and the War Cabinet were torn between fulfilling the military role allotted by MacArthur and the economic function conceived in London and Washington. More positive leadership might have resolved the dilemma, but the central problem was one of geography: the location of a major supply base in a large area with small population immediately adjacent to a major war zone.

TOWARDS REGIONAL SPECIALISATION

No sooner had manpower rationing been adopted than its details had become redundant. Expectations that a rate of diversion of 10,000 men and 2,000 women per month could be maintained were soon disappointed, for during June 1943 the total figure achieved was 9,053 and in July 8,270. More significant was the short-fall in male enlistment of one-third below the target. Female diversion was initially in excess of the planned figure, but in July also declined sharply. Even the sceptics were now prepared to accept that the manpower pool had been exhausted, and that under existing policy the rate of male diversion would soon fall to the net natural addition to the working population (estimated at about 2,000 per month).

At the same time a serious disruption of civilian and indirect war supplies threatened unless urgent remedial action was taken. The general supply outlook for 1943-44 was much worse than it had been twelve months previously, and it appeared unlikely that contracts to supply food and materials to the United Kingdom and the United States forces could be fulfilled without Draconian cuts in civilian consumption. The Minister for Commerce and Agriculture argued in a series of submissions[4] that

[4] War Cabinet Agendum 226/1943 and Full Cabinet Agendum 526.

50,000 men should be returned to rural industries to maintain and increase production, especially of dairy products, vegetables, eggs and meat; another 10,000 were required for food processing. Capital equipment in the rural sector had also deteriorated,[5] while crop yields were being adversely affected by the shortage of fertilisers. Strategic minerals production required 1,265 men urgently, the importance of the need being accepted by War Cabinet in July when arrangements were made for the release of experienced miners from the Army.[6] Output of clothing and textiles had also suffered, and it was estimated that an additional 9,000 workers (mainly women) were required by the end of the year to avoid a reduction in the ration. A long list of other high priority labour requirements had been established, especially in rubber, timber, transport, hospitals and government service. The Manpower Directorate cut the urgent needs of the rural sector to 15,000, but total high priority manpower requirements were placed at between 40,000 and 50,000.

Sacrifice of part of the war programme was therefore unavoidable. This was accepted implicitly by the War Cabinet in mid-July when the "principles which should govern the extent and nature of the Australian war effort" were laid down in more detail than before.[7] There was nothing basically new in the Prime Minister's statement. As before, emphasis was given to the need to concentrate the country's limited war potential in the South-West Pacific Area and to limit the direct contributions to other theatres as far as possible, particularly by eliminating munitions exports and restricting the overseas activities of the Navy and Air Force. What was new was the War Cabinet's determination to see that its broad principles were translated into detailed and integrated decisions covering the breadth of the war effort. Previously such *ex cathedra* statements had been regarded in some quarters as little more than interesting "position papers", and the response had been piecemeal and incomplete. On this occasion War Cabinet ordered a comprehensive review of military strength and deployment by the Defence Committee and of total manpower allocation by the War Commitments Committee.

The Director-General of Manpower wasted no time in taking full advantage of the opportunity that had been presented to him. Over the next two months the War Commitments Committee met regularly at about fortnightly intervals to consider the well argued and fully documented submissions of the Manpower Directorate. The ground rules were laid by Wurth in a paper on "Manpower Planning" presented to a meeting on 11th August. Two key passages sought to articulate the basis of recent trends in Government decisions. First, the altered strategic situation with Japan now on the defensive and with adequate Allied forces in the Pacific required a change in direction "from an economy build up, of necessity, during 1941-42 for self-sufficiency in defence to a greater

[5] By War Cabinet Minute 2972, 13 Jul 1943, the manufacture of agricultural machinery and food processing equipment was entrusted to the Department of Munitions and classified as a war project.

[6] War Cabinet Minute 2973, 13 Jul 1943.

[7] War Cabinet Minute 2968, 13 Jul 1943; Agendum 311/1943.

measure of international specialisation, with greater emphasis upon Australia's role in supplying services and goods which, for geographic and economic reasons she is relatively better able to provide". Second and partly related to the first, Government policy was moving towards a strengthening of civilian labour supply for a variety of political and economic reasons, especially to contain inflation and allow the price stabilisation policy introduced the previous April to have some chance of success. Wurth argued that:

> The strain on civilian resources is reflected in rapidly rising costs, due largely to the fact that in many industries the remaining labour force is of relatively low quality, that discipline and efficiency have deteriorated under war conditions, and that labour costs have jumped upwards under extended hours of work. The situation could be alleviated if a large supply of efficient labour were provided for the production of consumers' goods and the maintenance of industries which have been seriously neglected.

Wurth concluded that important components of Government policy were in direct conflict. The limit of diversion to the direct war effort had been reached in mid-1943, and steps were now being taken to release men for important civilian work. Yet expansion of the Services as authorised was still far from complete. In particular, the shift from ground to air defence could not be achieved unless there was a planned depression of the Army coupled with compulsory recruitment of ground staff for the Air Force.[8] And the urgent need for 30,000 men for civilian work could not be achieved without a reduction in the strength of the Services and/or Munitions.[9] While the policy alternatives were clearly indicated, details for obtaining a balanced use of labour resources were left out of the paper.[1] Wurth was probably uncertain of the way his approach would be received, and of the amount of support that he would be able to command.

The paper was, however, received much more pragmatically by the non-military members of the War Commitments Committee than evidently had been anticipated. Indeed, Theodore, Director-General of Allied Works, suggested (fairly enough) that Wurth's approach had been far too tentative and urged that the committee incorporate in its report to War Cabinet some stringent criticism of the Defence Committee's circumvention of Government manpower policy. Even Essington Lewis, whose Munitions Department had been in almost continual conflict with the manpower authorities since the beginning of the year, was prepared to be realistic. Munitions, in particular, was fighting for self-preservation: in the absence of a strong thrust at the strength of the Services the Munitions complex was in danger of bearing the brunt of the inevitable reduction in direct war manpower. The upshot of this new alignment within the War Commitments Committee was an unexpectedly vigorous direction to the

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[8] Shortly before War Cabinet reaffirmed its decision "in principle" of Mar 1942 to expand the Air Force to 72 squadrons.

[9] The 30,000 men were needed mainly for rural industries, food processing, strategic minerals, clothing manufacture by the Department of Supply and the United States Services of Supply.

[1] Wurth did however recommend the compulsory recruitment of women for the Service Auxiliaries, reassessment of supply requirements for the Services, and continued review and curtailment of non-essential production.

Defence Committee which went well beyond Wurth's original proposal. The Chiefs of Staff were to examine the effect on the Services of a withdrawal of 50,000 men and 1,500 women. The sting was in the sharp fall in the proposed enlistment rate, a rate which would have resulted in a net reduction in total enlistments of about 5,000 per month (assuming, with the Defence Committee, that wastage would average 7,000 men per month). Rubbing salt into the wound, the Defence Committee was also asked to furnish statements on its previous Cabinet submissions (and whether these had been approved), and information on its current examination of munitions, works and other programmes (including American demands on Australian labour) "in so far as they affect the disposition or the availability of manpower resources". The War Commitments Committee, hitherto the lesser influence on War Cabinet, had made a strong bid to clip the wings of the military advisers.

This placed the Chiefs of Staff in an extremely awkward position. The Allied offensive in the South-West and South Pacific Areas had only recently gathered momentum. The landing at Nassau Bay on 30th June had been followed by slow but steady progress against the Lae-Salamaua area, but the major attack against Japanese-held Lae was still several weeks away. As always in New Guinea, casualties from the enemy, the terrain, climate and mosquitoes had been heavy and were likely to be heavier before Rabaul was taken. In July the War Cabinet had reaffirmed an expansion of the Air Force to 72 squadrons, and it had always been assumed (despite some downgrading of the Army's role) that the A.I.F. would play a significant offensive role alongside the Americans. But MacArthur was showing a distinct lack of interest in the Australians in his forward planning; a sharp reduction in military strength would reduce still further the Australian influence on the Commander-in-Chief. The Defence Committee had no difficulty in concluding, therefore,

> that the proposed allocations of manpower would be totally inadequate to meet the requirements of the Services to carry out the operations to which they are committed and thus unacceptable as a basis for recommendation to the Government.[2]

It was reiterated that a minimum of 9,500 men per month would be required to meet operational needs; 7,000 per month would "barely maintain" existing strength.

The report on the total manpower situation that was presented to War Cabinet towards the end of September 1943 contained some concessions to the Defence Committee's views. The proposed withdrawal of direct war manpower was reduced to 40,000, and of these half were to come from the Army and half from Munitions. (Originally it had been suggested that the Army should contribute two-thirds and Munitions one-third.) Further, it was recommended that a rate of Service enlistment be set at a maximum of 3,000 men and 2,000 women compared with the earlier proposal of 2,000 men and 1,500 women. But the most significant

[2] Defence Committee Minute, 19 Aug 1943.

concession was that the deadline for completing the withdrawals was extended from 31st December to 30th June 1944. From an administrative point of view some extension of the deadline was probably inevitable in view of the delay that had already occurred in completing the submission, but the period of nine months allowed for the adjustment was unnecessarily cautious and virtually ensured that overcommitment would continue as a major problem well into 1944.

Even then the Defence Committee was not satisfied. The report of the War Commitments Committee went to War Cabinet without a consensus and with two diametrically opposed sets of recommendations. As outlined above, the non-military members urged a modest phased reduction in the manpower component of the direct war effort in order to strengthen indirect war and civilian production, whereas the Chiefs of Staff reiterated their position that a minimum intake of 9,500 per month was essential to enable military obligations to be fulfilled. As phrased by Wurth, the Government was faced with a clear choice between the following alternatives:

(a) relieve the Services of responsibility for some of the commitments on which their estimates are based, and/or
(b) endorse a further regulation of the civilian economy, together with failure to a substantial extent to meet the British and Allied requirements [of food and materials].[3]

War Cabinet's decision on 1st October[4] represented in part a consolidation and restatement of existing policy, and in part a tentative reappraisal of future objectives. The scheme of 40,000 special releases from the Army and the Munitions-Aircraft bloc was approved, as was the limitation on Service intake to 3,000 men and 2,000 women per month. Of these releases, 15,000 were to be directed to food production (as had already been approved in principle),[5] up to 5,000 men and women to food processing, and the remainder to high priority requirements specified by the War Commitments Committee. Food production was also to be aided by accelerated use of prisoners of war, by a strengthening of the Morale Section of Food Control to help improve the fairly low level of industrial morale in food factories, and by an investigation of wage and other conditions in these factories. It was also suggested that the United States might be approached to take over food export contracts from Australia; and efforts were to be made to restrict American demands on food supplies under the Reciprocal Aid Agreement. However, these were regarded merely as remedial measures to prevent deterioration in the level of civilian supply: there was no suggestion that the War Cabinet was prepared to sanction a reallocation of resources on the basis of increased international specialisation. Indeed, in approving the releases for food production, War Cabinet observed, equivocally, that

[3] War Cabinet Agendum 379/1943.
[4] War Cabinet Minute 3065, 1 Oct 1943.
[5] War Cabinet Minute 2972, 13 Jul 1943.

in the achievement of a balanced war effort, it is of vital importance to avoid the creation of a manpower problem in respect of the maintenance of the Forces similar to that which has occurred in food production. Furthermore, paramount reasons of high policy forbid too great a reduction of the fighting forces in favour of food production.

And as the administrative arrangements were unfolded, it became evident that the transfer would be a slow process. Employers were required to nominate experienced rural workers to local War Agricultural Committees, and committees would then approach the Army. But before the Army could authorise a release, the Manpower Directorate was required to submit a report. Any nominee could refuse to be discharged.[6]

In other ways, too, qualifications were added which restricted the amount of manpower reallocation that was likely to be achieved. Although 20,000 men were to be released from munitions industries, War Cabinet added the seemingly innocent proviso that the Director-General of Munitions could arrange to "set off against total releases any additional manpower required for new projects approved by War Cabinet, to an amount agreed by the War Commitments Committee". As will be seen, this led to endless argument between Manpower and Munitions about the meaning of "offsets" and the definition of the "Munitions-Aircraft bloc" which further limited the effectiveness of the special releases.

In an economic sense, therefore, the policy of achieving a "balanced war effort" represented a slight shift in emphasis rather than a change in direction. Similarly, the military reassessment in the light of the manpower releases produced no real change. Details are discussed elsewhere,[7] but War Cabinet merely reiterated—although on this occasion supported by specific directions—that military resources should be concentrated in the South-West Pacific Area. As a matter of basic principle, it was stated further that

It is of vital importance to the future of Australia and her status at the peace table in regard to the settlement in the Pacific, that her military effort should be concentrated as far as possible in the Pacific and that it should be on a scale to guarantee her an effective voice in the peace settlement.[8]

This dubious proposition meant, presumably, that the maximum possible offensive deployment should be maintained. War Cabinet had chosen a suit of the same colour and style but one size smaller: it had ducked choosing between Wurth's clear-cut alternatives.

In one way at least, however, the October review marked an important turning point in the war. Explicit expression was given to the fact that the threat of invasion had passed which in turn sharpened thinking about the post-war world. This was certainly not the intention and Curtin warned repeatedly that no relaxation in the war effort could be expected or should be anticipated. But the Government's own propaganda about Allied success in New Guinea and New Britain, and the massive Russian assault

[6] *Digest of Decisions and Announcements*, No. 65, pp. 26-7.
[7] See Hasluck, *The Government and the People 1942-1945*, pp. 301-3.
[8] War Cabinet Minute 3065, 1 Oct 1943.

along the eastern front, undermined to some extent the calls for more austerity and unrewarding grind. Post-war reconstruction had been an important element in policy since early in 1943, but after October it grew to dominate most aspects of official and private thought. Ironically the October decisions offered no material means for the translation of thought into action.

SCREENING FOR LABOUR

The process of tuning the economy to an even higher pitch of mobilisation in 1943 required modification of the existing techniques of manpower control and the introduction of several new ones. With the elimination of large pools of labour available for diversion to the war effort, more specific measures were necessary to search for the small number of men who hitherto had escaped the net; a combination of carrot and stick was employed to help break down the formidable political and social barriers preventing a larger number of women entering the work force or enlisting in the Women's Auxiliaries.

By the end of 1942 the Schedule of Reserved Occupations had declined to comparatively minor importance as a means of extracting men for the Forces. Flexible use of the Schedule had yielded large groups of men for enlistment during the invasion crisis, but with the exhaustion of "bulk manpower" alternative techniques of control assumed greater importance. Reservation continued, however, as an essential means of assisting the flow of women into the Women's Auxiliary Services. The first restrictions on female enlistment, introduced on 7th August 1942, were replaced by a shortened list in April 1943. Initially women in protected factories (including munitions establishments), government departments (including state and local government) and those with professional and technical qualifications in short supply had been reserved; but the amended list excluded those in state and local government employment and restricted the reservation of factory employment to high priority work. The purpose was, of course, to accelerate the growth of the Women's Auxiliaries, for under the pressure of manpower shortage some of the prejudice against women in the Services had fallen away. The R.A.A.F. in particular found that women were well suited for many ground staff functions. The number of women in the Services increased rapidly from about 20,000 in July 1942 to 44,000 in June 1943, but thereafter the rate of increase slowed appreciably and enlistments fell well short of expectations. The War Commitments Committee urged repeatedly in 1943 that young, single women be called up compulsorily, but War Cabinet rejected the suggestion on political grounds and female enlistment remained voluntary throughout the war. By the end of 1943, therefore, reservation as applied to women had lost its strength as an instrument of policy (as in the case of men a year earlier).

Similarly, the remaining instruments of control available under the Manpower Regulations were nearing the limit of their effective use by the end of 1942. Restrictions on the engagement of labour had been made

virtually complete, while the number of protected undertakings exceeded 13,000. Protection had already immobilised a large proportion of the civilian work force, for employees were only permitted to leave protected undertakings with the written authority of the Director-General of Manpower.[9] As protection ensured that a firm could retain some proportion of its labour force, there was considerable pressure on the manpower authorities to extend protection in 1943. An important element of policy was that protection should be withheld until the maximum comb-out of labour had been achieved, and the increasingly rigorous examination of each new candidate for protection yielded small additional amounts of labour. By the end of 1943 19,000 undertakings had been protected, a figure which increased only marginally in 1944.

But protection retained its value in 1943 only in association with the introduction of the power to direct engaged labour. Authority to direct an unemployed person to accept employment was contained in the original Manpower Regulations of January 1942,[1] but the ultimate weapon at the disposal of the Government—the power to direct any person to engage in specified employment—was not inserted into the regulations until 29th January 1943.[2] Even then the step was taken with misgivings (and with certain exemptions and the right of appeal), for direction was dangerously close to industrial conscription and was an acknowledged infringement of the right of personal choice of employment. The use of direction was however the only effective way of revitalising the system of manpower control to a degree which would permit further diversion to the direct war effort. The essential feature of the power was that it permitted individuals to be examined in detail, and hence the small remaining pockets of underutilised labour could be diverted to high priority work. Probably the most important effect of direction was that the substitution of women for men in factory employment was accelerated. Indeed, the power was introduced very largely to deal with the problem of female mobilisation, for the limits on the use of women were such that "bulk" methods were inappropriate and examination of individual cases was essential.

From the outset the Manpower Directorate accepted that direction would have to be used sparingly, and that the effectiveness of the instrument lay in the threat rather than the execution. In early 1943, therefore, an intensive publicity campaign was launched to encourage voluntary transfer to essential employment with the reminder that direction would be exercised if necessary. Using civilian registration cards for information a large number of people were called upon to submit to interview at National Service Offices. In addition all single men aged over 45 and married men over 35 were sent questionnaires to bring their civilian registration cards up-to-date, as were single women aged between 18 and 45 who were not employed, and married women between 18 and 35 without children. Usually this type of pressure was sufficient. The

[9] The same restriction applied to the dismissal of employees.
[1] Regulation 15 of Statutory Rules 1942, No. 34, 31 Jan.
[2] Statutory Rules 1943, No. 23.

number of direction orders issued rarely exceeded 500 per month, and averaged 290 per month during 1943.[3]

The new power could not be used to direct women into the Women's Auxiliary Services; nor did it apply to a member of the Services. Married women with dependants and other family responsibilities were exempt and, in general, other married women were not to be directed except in special circumstances. Young people could only be directed with the consent of their parents. Special provisions were made for those transferred away from home, such as the payment of fares and the supply of suitable accommodation. Special care was taken to ensure that, in the course of direction, industrial awards were not infringed.[4] Even so appeals were fairly frequent. Between January 1943 and July 1944, 14 per cent of those directed lodged an appeal; more than half the appeals were upheld by the Director-General of Manpower.[5]

Armed with the power of direction and in association with the Department of War Organisation of Industry, the Manpower Directorate embarked on a further rigorous comb out and rationalisation of industry. Attention was concentrated on those tertiary industries where there appeared to be labour reserves. The clerical staffs of banks and insurance firms were raked over, and by mid-1943 a total of 500 bank branches had been closed. Male employment in banks had fallen from a pre-war figure of 63,000 to about 39,000 and, while it was believed that further men could be obtained, the physical quality of additional releases would be very low. The retail and wholesale trades were also examined with some success: between June 1942 and June 1943 about 20,000 persons had been released for war work in retail distribution alone. While further men could be obtained, this would mean the closure of a large number of small shops and seriously disrupt the trading arrangements in many localities. Similarly household deliveries had been rationalised by zoning and by restrictions imposed by the Land Transport Board; further manpower could be obtained by virtually eliminating all household deliveries, but it was judged that the additional strain which this step would impose on domestic life would negate the original saving of labour because industrial absenteeism would rise and women would withdraw from the work force or be reluctant to enter it. Health, education and other professions had already been reduced severely by early 1943, and it was judged unwise to lower further the supply of health and other professional services. The story was similar in the case of other miscellaneous services —entertainment, sport, photography, watchmaking and electrical contracting—except that the Department of War Organisation of Industry expected that a few technicians could be released by zoning the services of electrical contractors, mechanics and radio servicemen.

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[3] Wurth, *Control of Manpower in Australia*, p. 102.

[4] In general, the conditions associated with the use of direction were rigidly adhered to, although there was an isolated instance in Feb 1943 of boys under 18 being directed away from home for fruit picking. See *Commonwealth Debates*, Vol. 173, pp. 676-7.

[5] Wurth, *Control of Manpower in Australia*, p. 101.

Not only were the best efforts of the authorities yielding rapidly diminishing returns; in an increasing number of instances examination of an industry or occupation suggested that the imposition of further restrictions might lower rather than improve labour supply. One example relating to the employment of domestic servants was before Production Executive in May 1943.[6] Employment of full-time domestic servants had already been restricted to one per family without permit, but this still left about 80,000 engaged in what was regarded as low priority work and it appeared that the use of direction could be rewarding. But a survey by the Manpower Directorate soon revealed that little could in fact be achieved and the net effect might be damaging. Most of the women still engaged as domestic servants were over 45 years of age and lived with their employers and well away from centres of industrial employment. The removal of large numbers would create new housing difficulties and further disrupt rural life. Further, many servants were employed part-time and additional restrictions would be difficult to police and be of doubtful value.

Considerations of national morale imposed an additional constraint. Although the supply of some items and services was technically non-essential, the psychological benefits of maintaining a reasonable proportion of normal supply were regarded as more important than maximising manpower savings. The provision of modest production of beer and tobacco is the obvious illustration. A trivial although revealing one is provided by the attempt of the Manpower Directorate to withdraw labour from ladies' hairdressers and beauty parlours. A survey indicated that no more than a few hundred could be obtained unless permanent waving was eliminated. But fashion decreed that waves were indispensable and Production Executive agreed.

As described in Chapter 7, one further possibility involved the "concentration of industry". On 3rd March Full Cabinet approved in principle a scheme of industrial concentration (with limited compensation),[7] and by the middle of the year the Department of War Organisation of Industry had drawn up preliminary plans for the closing down of plant involving some eighteen industrial sub-groups. But such a drastic step, initiated at the end of 1942 under different political conditions, had been overtaken by events. By the time detailed proposals were ready Full Cabinet was no longer in a receptive mood and concentration was quietly shelved.

Less spectacular but more fruitful were the continuing efforts to improve labour productivity and the conditions of factory employment. Much had already been done in 1941 and 1942 to add to the supply of skilled labour, particularly in the engineering trades, by means of trade dilution in conjunction with the Commonwealth Technical Training Scheme. In 1943 dilution was extended further, the most significant change being the admission of women to the diluted engineering trades.[8]

[6] Production Executive Agendum 121/1943 and Supplement 1, 19 May.
[7] Full Cabinet Agendum 429, 20 Jan 1943; considered 3 Mar.
[8] Statutory Rules 1943, No. 143, 27 May.

Previously dilution had been reserved strictly for men, but the extreme shortage of male tradesmen in the industry eventually persuaded the engineering unions to relax slightly their male chauvinism.[9] In fact, few women qualified as "added tradeswomen" and the relaxation was more of symbolic significance. Subsequently women were permitted to qualify as added boilermakers,[1] while the electrical trades dilution regulations introduced in February 1944 contained no discrimination on the ground of sex.[2] Shortly before, in November 1943, dilution was extended to the shipbuilding and ship-repairing industries (although, understandably, without a female provision) under an agreement with the Federated Shipwrights and Ship Constructors Association of Australia.[3]

A great deal of effort was put into the improvement of factory working conditions, especially in munitions factories and annexes. Many of the factories hastily built in 1942 contained inadequate lighting and ventilation, and existing factories had not been converted for night work. Minimum lighting standards were laid down in July 1942,[4] but the shortage of electricians and equipment restricted the rate of improvement. Despite attempts to enforce the regulations, poor industrial lighting was a cause for complaint throughout 1943 encouraging absenteeism and discouraging the working of overtime.[5] Similarly, indifferent canteen facilities in many munitions establishments discouraged many men and even more women from working the long hours that the Government required. The Industrial Welfare Division of the Department of Labour and National Service worked strenuously to rectify the position—and some improvements were made—but there were limits to the improvement of cooking standards by bureaucratic methods and the Department of Munitions was subject to the same food shortages as the rest of the community.

However, rising industrial disruption more than negated the gains that were made in these directions. Initially the more serious problem was absenteeism. A survey by the Industrial Welfare Division over a six week period in July and August 1942 estimated that absenteeism accounted for the loss of 7 per cent of male working time and 13 per cent of the time of women. Translated into the loss of *factory* manpower and on the assumption that the sample was representative of all factory employees, this was equivalent to the loss of 35,000 men and 27,000 women.[6] Although no reliable figures were available for 1943, it was generally believed that absenteeism had risen with the improvement in the

[9] However, the regulations included stringent provisions for maintaining the preference for men. An employer was prevented from dismissing, without the consent of the Local Dilution Committee, a male added tradesman while a female of the same classification was employed in the same establishment. Further, a female was required to agree to abandon her employment if and when a competent recognised tradesman or male added tradesman (of the same classification) was available and offering for the job.

[1] Statutory Rules 1943, No. 197, 16 Aug.

[2] Statutory Rules 1944, No. 40, 23 Feb.

[3] Statutory Rules 1943, No. 281, 19 Nov.

[4] Statutory Rules 1942, No. 302, 8 Jul.

[5] Largely for these reasons, daylight saving was introduced in all States except Western Australia between 1 Jan and 29 Mar 1942; between 27 Sep 1942 and 28 Mar 1943; and between 3 Oct 1943 and 26 Mar 1944. Standard time was observed in the summer of 1944-45.

[6] Full Cabinet Agendum 426, 26 Jan 1943.

war situation, growing industrial fatigue and the rise of female employment. But the survey also made clear that a high proportion of absence from work was unavoidable, due either to illness, industrial accidents or exceptional domestic difficulties. As for avoidable absence, regulations prohibiting absenteeism without due cause had been introduced in October 1942,[7] but little could be expected from the prosecution of a few laggards and large-scale enforcement was out of the question politically for any government, especially a Labour government. In any case a good deal of absence was due to the poor factory conditions mentioned previously, including inadequate on-the-job first aid and safety standards.

Apart from a few mild rebukes from the Prime Minister and attempts to improve working conditions, the Government decided sensibly not to make a major issue of absenteeism. It judged, probably correctly, that a widespread publicity campaign against the practice accompanied by rigorous enforcement would achieve little and could have damaging effects on morale. In any case avoidable absenteeism does not appear to have been excessive (except in coal mining), and may have been less than in other comparable wartime societies.[8] Habitual offenders were prosecuted, but on the whole the matter was kept in the background. The major Government concession to the problem (which was also of wider political significance) was the decision to restore normal observance of public holidays and annual leave provisions of awards.[9] Ward, Minister for Labour and National Service, argued vigorously, although with little supporting evidence, that the restrictions that had been imposed in 1941 on public and annual holidays had been the major factor contributing to absenteeism and had been widely resented and "industrially disastrous". It is unlikely that Cabinet accepted the analysis, but the proposal did make good political sense. Apart from qualifications relating to vital defence industries, the restrictions were removed in October.

Much stronger action was taken to deal with industrial disputes. In 1942 the number of strikes and the amount of time lost had fallen to very low levels under the psychological impact of the invasion threat, and the Government was prone to congratulate itself that it had achieved markedly better industrial relations than its United Australia-United Country Party predecessors. Early in 1943 the incidence of strikes increased markedly. In aggregate the amount of time lost was still negligible and for the whole of 1943 was a fraction of that involved in the observance of a single public holiday. But what was damaging economically and politically was the rising number of disputes in key industries such as meat slaughtering and, of course, coal-mining. At a time when manpower resources were being screwed to the limit and when further restrictions were being imposed on civilian consumption, any disruption of direct or indirect war industries was seen as a threat to national security.

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[7] Statutory Rules 1942, No. 418, 1 Oct.

[8] A few rough comparisons were given by E. J. Ward on 16 Mar 1943, *Digest of Decisions and Announcements*, No. 56, p. 3.

[9] Full Cabinet Agendum 493, 18 May 1943.

Hoping that the number of disputes could be contained by persuasion and a commonsense examination of specific complaints, the Government resisted repeated Opposition calls for use of the "big stick". By April and May, however, it had become evident that reason was not producing the desired results, and senior Ministers—especially the Prime Minister—were showing increasing irritation with the seeming pettiness of most pit-head stoppages. Without warning and without having consulted the

WORKING DAYS LOST IN INDUSTRIAL DISPUTES
1939 TO 1945
('000)

	Coalmining	All other	Total
1939 . . .	291	168	459
1940 . . .	1,371	136	1,507
1941 . . .	276	708	984
1942 . . .	178	200	378
1943 . . .	326	664	990
1944 . . .	390	523	913
1945 . . .	611	1,509	2,120

Source: *Labour Reports.*

trade union, Curtin submitted to Full Cabinet on 18th May the most drastic anti-strike measure that could have been expected from a Labour Government.[1] There is no record of dissent from the Prime Minister's proposed new regulations in Cabinet papers, and it is perhaps indicative that at the same meeting Cabinet considered a strongly worded minute from General Blamey complaining that heavy calls were being made on scarce Army labour as a result of constant waterside disputes, and suggesting that an Army Docks Service be formed in the absence of sufficient civilian labour.[2]

The substance of the plan was the withdrawal of the privileges attached to persons engaged in protected undertakings in the event of an "unlawful" strike or lockout. "Unlawful" meant a violation of any industrial code, custom or practice which led to an industrial disturbance.[3] Those declassified in this way were, if eligible, to be called up for military service under the *Defence Act*; those medically unfit or otherwise ineligible for call-up were to be directed to perform other work by the Manpower Directorate. For the purpose of examination of individual cases, the Commonwealth Investigation Branch was to be used to prepare reports. Technically the freedom to strike was retained, but the Government had come perilously close to abolition of this right in relation to protected undertakings. Obviously such a power had to be used with restraint and great care, and the Prime Minister insisted that the executive authority be retained in his own hands. Immediately after the regulations were issued

[1] Full Cabinet Agendum 499, 18 May, 1943.
[2] Full Cabinet Agendum 495.
[3] *Digest of Decisions and Announcements*, No. 59, pp. 39-40.
[4] Statutory Rules 1943, No. 144.

on 27th May,[4] the Prime Minister declared all coal mines protected undertakings;[5] soon afterwards the stevedoring industry was dealt with in the same way.

This power, although theoretically far-reaching, was in practice a damp squib. As noted, declassification had to be used sparingly for political reasons. But an even more important restraining influence was the chronic shortage of labour. For almost two years workers in essential occupations had become accustomed to hearing about their indispensability and they were not now inclined to believe that they could be removed from their normal work so long as solidarity was maintained. This view proved to be correct. To be sure, declassification acted as a deterrent for a month or two and it was useful for removing a few persistent troublemakers. But it offered no solution for the longer term problems of industrial relations and by August and September strikes and stoppages, mainly in coal-mining and on the waterfront, were more frequent than before. In September 1943 the Prime Minister extended his industrial authority over protected undertakings by amending regulations which enabled him to order directly a return to work or to forbid a stoppage if one threatened.[6] This was aimed specifically at coal-mining, for by this time the amount of time and production lost on the New South Wales northern fields outweighed all other industrial matters. Further discussion of industrial problems will, therefore, be considered in the particular context of the supply of coal.[7]

Early in 1943 special arrangements were necessary to strengthen the nursing staffs of civilian hospitals. Enlistments in the three nursing services had diverted many trained nurses away from these hospitals and others had been attracted away from nursing by the superior conditions and wages available in other occupations. In an attempt to stem the outflow hospitals were protected, progressively, during 1942, but the shortage persisted and more positive steps were found necessary. In February 1943 the engagement of all nurses and domestic staff of hospitals was controlled through National Service Offices and instructions were given prohibiting the engagement of nurses in occupations other than nursing, a prohibition supplemented by limited use of the power of direction. In March nurses were required to register with the Manpower Directorate under the various State Nurses Registration Acts, an order which was limited to civilian women under 60 years of age. In addition, hospitals and the Services were required to supply information about staff numbers. Complete information was therefore available by mid-April. The survey showed that of the 47,374 registrants, 55 per cent were engaged as nurses, 41 per cent (mostly married women with dependants and women over 35 years of age) were not gainfully employed, and the remaining 4 per cent were engaged in other occupations.[8] The data thus provided allowed pressure to be brought to bear on those employed outside the profession

[5] Previously only a few mines had been protected because the industry was subject to a separate system of control under the coal control regulations.

[6] Statutory Rules 1943, No. 231, 13 Sep.

[7] See Chapter 16.

[8] Wurth, *Control of Manpower in Australia*, p. 179.

and on younger women without dependants who were not gainfully employed. The response was quite good and for the remainder of 1943 staff deficiencies in hospitals were kept within reasonable limits. In 1944, however, the problem re-emerged. On this occasion no "reserves" were available to be exploited and the nursing Services were required to release women for civilian hospital employment.

RURAL LABOUR ORGANISATION

The rapid fall in rural labour supply that occurred in 1942 and early 1943 made necessary the imposition of a highly complex yet flexible and decentralised system of controls and special arrangements. As was seen in Chapter 8, the problems differed widely between regions but, broadly, the industries and areas most seriously affected were those located in the proximity of munitions factories or other manufacturing employment where there was a strong wage incentive to switch employment; those relatively labour intensive industries such as dairying and vegetable-growing which found difficulty in maintaining or increasing production in the face of strong competition for labour; and those industries which depended on a marked seasonal influx of labour. The fact that total farm output (in physical terms) was maintained at about the pre-war level (except for the drought year 1944-45) in the face of a thirty per cent cut in the male work force, a severe shortage of fertilisers, and deteriorating capital equipment is a tribute to the farming community and the manpower organisation.

RURAL INDUSTRIES: ESTIMATED MALE EMPLOYMENT 1939-45 ('000)

As at 31 Mar	Owners, Relatives	Permanent Employees	Temporary Employees	Total
1939 . . .	292	100	102	494
1942 . . .	256	83	62	401
1943 . . .	239	76	45	360
1944 . . .	255	75	55	385
1945 . . .	265	74	64	403

Note: Included in the number of temporary employees are 5,000 prisoners of war in 1944, and 9,600 in 1945.

Source: *Production Bulletins.*

The provision of an adequate seasonal work force required the highest degree of organising skill. A number of rural industries required large numbers of temporary workers to shear sheep, cut cane and pick fruit and other activities mainly associated with harvesting. Before the war there were more than 100,000 men (and a few women) engaged in these tasks but after Pearl Harbour the number of these workers fell dramatically. As indicated in the table, the seasonal labour force fell by more than one-half between 1941 and 1943, a much more pronounced decline than in the other two categories. Further, the seasonal component was much

more difficult to replace, containing as it did a high proportion of skilled workers such as shearers, wool classers, cooks and cane cutters.

The development of an organisation for the provision of sufficient labour for shearing was determined largely by regional and climatic patterns. In Western Australia and Queensland no special arrangements were necessary: flock numbers were not particularly high and most shearing was performed by permanent station hands and local town dwellers. In Queensland, moreover, shearing was not restricted to a few weeks of the year, so that seasonal bottlenecks in labour supply could be avoided if necessary. However, in New South Wales, Victoria, Tasmania and the eastern runs of South Australia, shearing timetables were closely linked with climatic conditions and long established practice. Beginning in the north in July, the season reached a peak in the western plains of New South Wales and Victoria in August and September, and concluded in the high tableland districts, southern Victoria and Tasmania, in October and November. Throughout the five-months season there was a large movement of shearing workers, generally from north to south (or from the plains to the tableland districts). About 40,000 workers were normally involved—20,000 shearers, and 20,000 ancillaries such as wool rollers, classers, piece pickers, tar boys, cooks and contractors. Some lived on grazing properties or in nearby towns, but most lived in capital cities or the more closely settled farming districts making necessary a major movement of workers during the seasonal peak.

By 1942 it had become clear that special arrangements would be necessary to ensure a full clip. Fortunately, a reasonable amount of elasticity was available in the shearing timetable and more effective use could be made of available labour by extending the season and smoothing regional peak demands. By arrangement with the Graziers' Federal Council, regulations had been introduced in May 1942[9] which defined eleven shearing zones in New South Wales, Victoria and Tasmania and set down the period during which shearing was permitted. The regulations applied to flock sheep only; special classes of sheep such as stud rams and ewes, and small flocks of under 1,000 sheep were exempt. The intention was, simply, to commence shearing earlier in the north-west and west, and extend the season in the south and on the high country. For example, in the north-west shearing was to be completed by 1st August; in New England and Monaro in New South Wales operations were delayed until after 28th September, on the Great Dividing Range in southern New South Wales and northern Victoria until 30th November, and in south-eastern Victoria until 28th December.

In 1942 the zoning system had worked reasonably well and there had been no real difficulty in completing the season's work according to schedule. The regulations were applied flexibly: committees of advice established in Sydney and Melbourne arranged for exemption when, for example, the proposed shearing date coincided with lambing. But with the deterioration of the manpower position in 1943 special steps were

[9] Statutory Rules 1942, No. 216, 7 May.

necessary to maintain the existing shearing labour force. A register of shearing workers was created and arrangements were made with the Army and the Allied Works Council to release experienced men when required. Shearing workers normally engaged in protected undertakings were also to be released and then allowed to return. Additional zones were defined and South Australia brought within the scheme. Even so considerable difficulty was experienced in obtaining sufficient skilled labour at the peak of the New South Wales season. Most shearing was in fact completed but with a major disruption of the planned sequence. Part of the difficulty was the exemption of flocks of under 1,000 sheep. A number of contractors were inclined to break sequence in order to work these small sheds, a practice which delayed the whole programme and caused some stock losses when later sheds were forced to shear ewes heavy with lamb (or even after lambing). In 1944, therefore, small flocks were included in the scheme and, with the improved labour supply, no further difficulties were experienced.

The comparatively simple techniques of zoning and staggering were inappropriate for use on the sugar cane fields. Although cutting and crushing extended from June to December, there was little elasticity in the optimum cutting period and the peak seasonal requirements of most mills roughly coincided. A further complication was that a proportion of the 15,000 seasonal workers normally employed in the industry were Italians who had been interned since 1941 or who had left the growing districts. In part compensation was the high concentration of Army personnel and Allied Works Council employees adjacent to many growing areas. It was therefore possible to replace a proportion of the Italians by a system of special temporary releases. In 1942 a full complement of workers had been found by this method and the use of a Sugar Workers' Register; but in the following season, despite strenuous efforts of the Deputy Director-General of Manpower in Queensland to keep tabs on sugar workers, there was a marked short-fall in labour supply. In 1943-44 raw sugar production fell to 524,000 tons compared with 650,000 tons the previous season and a Production Executive target of 600,000 tons. An indifferent season, shortage of nitrate of soda and the withdrawal of mechanical equipment by the Allied Works Council contributed to the decline, but the fall in the quantity—and the quality—of seasonal sugar workers was mainly responsible.

As a result of the very poor crop in 1943-44 Production Executive ordered the release of 10,000 tons held in emergency stocks, the cessation of sugar exports by ballast back-loading to the United States and a cut in defence orders. The sugar industry was accorded No. 1 priority for all fertilisers. For the 1944 season War Cabinet ordered the release of 1,000 experienced cutters from the Army and/or the Civil Constructional Corps in addition to the young soldiers who had been made available in 1943. As many as possible were also to be released by the Civil Aliens Corps and from such other high priority work as the con-

struction of the Mount Isa railway. Tractors impressed from the industry by the Allied Works Council were as far as possible to be returned, at least temporarily.[1]

Together with the tight control over civilian cane-cutters by means of the Sugar Workers' Register, these special expedients helped lift production in 1944-45 to 670,000 tons—sufficient to meet the domestic ration, add to reserve stocks and provide a small amount for export. The experience of sugar in 1943 reflected not only the general manpower crisis but also the self-defeating nature of the defence over-commitment. For the industry was rescued very largely by a forced reduction in the effective strength of the Army and the Civil Constructional Corps.

Other seasonal labour difficulties were created by the substantial expansion of output of vegetables, fruit, rice, cotton, flax and other crops. Labour organisation was necessarily decentralised, and the Manpower Directorate worked closely with District War Agricultural Committees and the Department of Commerce and Agriculture. The main centres of this type of seasonal labour demand were in the central west of New South Wales around Orange and Dubbo, the Murrumbidgee Irrigation Area, the Goulburn Valley in Victoria and, to a less extent, the Dawson Valley in Queensland. In the Leeton area in New South Wales, for example, several thousand additional workers were required in the 1943-44 season to pick fruit, harvest rice, and staff the large dehydration plant. Local labour sources were inadequate despite the call-up for interview of unoccupied women in the area, and it was necessary to resort to volunteers from the Young Soldiers Pool, shearers, university students and senior school pupils. Special buses and trains were arranged, and many younger people were accommodated by billet. In general, the many *ad hoc* arrangements that were found necessary worked remarkably well and powers of direction were rarely invoked. Some crop losses were sustained, particularly in the intensive fruit-growing districts of the Goulburn Valley where several hundred pickers and processors were required on very short notice depending on seasonal conditions. But those "hidden" reserves of labour and effort were usually equal to the task.[2]

These especial efforts of workers and administrators would, however, have been much less effective without the capable contributions of the Australian Women's Land Army and Italian prisoners of war. Both groups were engaged in permanent and seasonal rural tasks and helped in small but important ways to moderate the worst effects of the rural manpower crisis.

As described in Chapter 8, the Women's Land Army was formed on a modest scale in July 1942[3] and reached a peak of about 4,000 permanent

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[1] War Cabinet Minute 3553, 23 May 1944; Agendum 277/1944.

[2] For further details of seasonal labour administration, see Wurth, *Control of Manpower in Australia*, Chs. 10-11.

[3] The army was established formally by Full Cabinet on 16 Jan 1943 (Agendum 413), but this merely confirmed action taken by the Minister for Labour and National Service. Also Full Cabinet Agendum 374, 19 Oct 1942.

and auxiliary members in the 1943-44 harvest season. Against competition from industry, the growth of the Army was initially slow, and there was also some opposition or indifference to the use of Land Army members. Some farmers believed that women would not be worth the prescribed rates of pay; some country wives were unenthusiastic for a variety of reasons, including the extra work that might be involved. Accommodation was a further concern. In January 1943 it was found necessary to strengthen the organisation by laying down in detail (in the form of a charter) minimum rates of pay and other conditions.[4] Membership was confined to those not already engaged in rural work, and the established strength was set at 6,000 members. District rates of pay were to prevail (as before) with a minimum of 50s per week without keep or 30s with keep. Training establishments were also set up in a number of States, with emphasis on animal care and management, vegetable growing, dairy practice and the use of farm implements. In other ways, too, efforts were made during 1943 to make the Land Army more attractive, including the formation of welfare committees and the extension of Australian Comforts Fund facilities to members.

Although the number recruited failed to reach expectations, small groups of these remarkable women were to be found throughout farming communities tending pigs and poultry, growing vegetables, harvesting flax, picking fruit and in a host of other activities. As well as those permanently employed on farms temporary camps of Women's Land Army Auxiliary members were established at seasonal peak times. For example, seven camps accommodating 240 young women were set up in the Dawson Valley for the harvesting of the cotton crop, while at the height of the 1943 harvesting season in New South Wales 69 camps were operating (with up to 300 women in a single camp).[5] In a number of the smaller and labour intensive rural industries, these women played an important part in helping to maintain production; they also assisted those changes which were according women a more varied role in society.

As will be discussed later, the Commonwealth's post-war immigration programme had its origins in the defence and economic implications of the manpower crisis of 1943. Coherent thoughts on long-term population policy were still some way off, but the genesis of the actual programme was to be found in the importation of about 12,000 Italian prisoners of war (mainly from India) in 1943 and 1944 for work in rural industries.

Considerations involved in the decision to use prisoners of war for rural work were the availability of suitable prisoners, the usefulness of the men in employment on unfamiliar work, security, and the limitations imposed by the Geneva Convention. During 1942 comparatively few prisoners were available to the Government and in any case the security risk appeared to be too high. But by the end of the year, when the dimensions of the manpower shortage were revealed, an inter-departmental committee was formed to examine the possibilities. In April 1943 the

[4] Full Cabinet Agendum 418, 16 Jan 1943.
[5] Wurth, *Control of Manpower in Australia*, p. 209.

committee reported that selected prisoners might be employed in rural industries in groups of not more than three per farm, and the War Cabinet endorsed a proposal to bring Italian prisoners of war to the country for this purpose subject to the standard safeguards about health, hygiene, security and rates of pay.[6] A basic feature of the scheme was that prisoners were not to be guarded, for if guards were needed the manpower advantages would be negated. For this reason there was no serious consideration given to the import of German or Japanese prisoners of war.

The Italian prisoner of war immigration programme proved its value before long. Most of the Italians were willing workers, and the Directorate of Prisoners of War found little difficulty in maintaining discipline. There were of course language difficulties; few prisoners were experienced rural workers and for this reason, and because some precautions were needed, they required a high level of supervision. But there was no shortage of demand for their services. In May War Cabinet approved the transfer of up to 10,000 prisoners from India of which 5,000 were to be landed as soon as possible.[7] Dairy farmers, fruit and vegetable growers and wheat farmers were particularly anxious to obtain men in this way. Initially camps were established in the comparatively "safe" States of Victoria and South Australia, but by 1944 prisoners of war were employed throughout the country. Security limitations were even relaxed to a point which allowed large groups of men ranging in number from 50 to 250 on government or large private projects (so long as only one employer was involved) such as rice-growing, firewood production, and vegetable and vegetable seed production. By the end of 1943 it was estimated that 15,000 to 20,000 prisoners could be absorbed readily. However, following the capitulation of Italy in September 1943 and her declaration of war against Germany, fewer prisoners were available and transfers were suspended in June 1944. (Those already in Australia continued to be employed as prisoners of war for the duration.)

By contrast, the contribution of aliens and internees to the rural labour supply was negligible. Efforts were made, especially in 1943, to use these groups as productively as possible, but the continuing problems of deliberate and unavoidable inefficiency, sickness, and the disinclination of employers to use the labour that was offered were not solved effectively. In 1942 those aliens not already performing essential work were drafted into an Aliens Civil Auxiliary Service, an organisation similar to but separated from the Civil Constructional Corps, under the control of the Director-General of Allied Works. The Auxiliary Service was engaged mainly on construction works, charcoal burning, firewood cutting, and salt harvesting. But the disciplinary powers that applied to the Auxiliary Service were found to be inadequate for this unwilling body of workers, and in May 1943 powers of control were strengthened and the Service

[6] Prisoners were paid at the rate of 1s 3d per day. Employers paid the Directorate of Prisoners of War £1 per week for each prisoner and provided keep. The Directorate's surplus was used to defray medical, welfare and administrative costs.

[7] War Cabinet Minute 2841, 14 May 1943.

transformed into the Civil Aliens Corps.[8] The Corps performed some useful harvest work, especially in Western Australia, and 400 members were released to help with the 1943-44 sugar harvest. But the contribution of aliens, and of those internees released conditionally towards the end of the war, remained marginal.

THE MANPOWER RELEASE TANGLE

Although the special seasonal labour arrangements for rural industries were in the circumstances reasonably effective, they left untouched the more fundamental manpower problems in such industries as dairying, pig-raising, vegetable-growing and sugar-cane production. Serious difficulties had also emerged by the end of 1943 in obtaining labour for food processing and packing, and the supply of materials for making cases. Any improvement in civilian food and other supplies, and in the objective of greater international specialisation of war production, depended on the success of the manpower release scheme authorised by War Cabinet on 1st October 1943.

It will be recalled that under the special release scheme 40,000 men were to be withdrawn from the direct war effort by June 1944, 20,000 each from the Army and the Munitions bloc. Most of these releases were to be directed to rural production and a special effort was to be made to obtain former dairy farmers from the Army. At the same time the principle of manpower rationing by which the intake into the Services was limited to 3,000 men and 2,000 women per month was to continue. The War Commitments Committee was to supervise the scheme and report on progress periodically. The first report was to cover the period to the end of December 1943.

This report, prepared as an interim statement in mid-December[9] and with complete figures in mid-February,[1] confirmed the disturbing trend of events in 1943: that in important respects War Cabinet had lost control of the direction of the Australian war effort. Despite in October the most explicit review of war policy that had yet been attempted, sections of the administration had chosen either to ignore the directives or to interpret policy in their own fashion. In one sense the least serious aspect of the situation was that little progress had been made in securing the 40,000 special releases. More damaging were the undercurrents of distrust and calculated misunderstanding that pervaded relations between the Departments of Munitions and Aircraft Production, the Manpower Directorate, the Defence Committee and through to the War Cabinet. It has not been the practice in these volumes to highlight internal differences between departments, differences which are an inevitable and necessary part of policy formation. By the end of 1943, however, relations had deteriorated to such an extent, and the consequences were so far-reaching, that the matter needs to be discussed in some detail.

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[8] Statutory Rules 1943, No. 108, 3 May.
[9] War Cabinet Agendum 520/1943, 17 Dec.
[1] War Cabinet Agendum 80/1944, 19 Feb.

These remarks do not apply to the Army. The release of 20,000 men was no more agreeable to the Army than to Munitions, but the military authorities swallowed hard and played the game more or less according to the rule book. The arrangement for effecting releases was that specific recommendations were to come from District War Agricultural Committees to the Manpower Directorate and, if endorsed, were transmitted to the Army for final decision. Of the 11,704 recommendations submitted by Manpower, 4,004 had been approved by the Army by the end of December 1943, 4,072 were rejected and the remainder were pending. In addition, 1,167 "B" Class men had been discharged for high priority civilian work, in part to compensate for the slightly above-quota intake of men into the Army for the three months period.[2] There had been irritating delays created by the approval procedure, and the Army's rejection rate appeared to be unnecessarily high. In particular, the number of dairy farmers released was disappointingly low and the Manpower Directorate found it difficult to believe that so many dairy farmers had found their way into key positions. (The Directorate probably underestimated the resistance of many farmers to return to the poor conditions and drudgery of the farm.) But it was generally accepted that the selection procedure was necessary to avoid disruption of military operations, and the number of releases suggested that the target could be reached.

However, what had been happening in the Departments of Munitions and Aircraft Production was not at all clear, and the information that was made available only served to confuse the issues. As recounted earlier, War Cabinet had specified in October that the following arrangements would apply to the Munitions releases: (1) that the releases were to be effected by the bloc itself and not by Manpower; (2) that "offsets" against the 20,000 were to be allowed if and when War Cabinet authorised new projects; and (3) that 15,000 releases were to be earmarked for food production and that all efforts were to be made to release experienced rural workers as a first priority.[3] It should be noted, also, that War Cabinet had ordered a further Defence Committee review of projects in the light of altered strategic considerations, but that the full review had not been completed by December.

No detailed figures were available for the December meeting of the War Commitments Committee on the progress (if any) that had been made, although Munitions representatives claimed that 17,000 men would be released by the due date. But this figure included more than 13,000 "offsets". Some of these, such as 1,200 for production of agricultural machinery, had been authorised, and the use of labour to manufacture such machinery was in practice a diversion to the indirect war effort. The largest item—7,000 for new American projects—had not, however, received War Commitments Committee approval. Indeed, these projects had been accepted by Munitions before the orders had been endorsed by War Cabinet and even when Cabinet did endorse them it was only on

[2] War Commitments Committee Minutes, meetings 11, 17 Jan 1944.
[3] War Cabinet Minute 3065, 1 Oct 1943.

condition that the manpower release scheme would not be affected.[4] Another 6,300 men were required for new Australian projects (including production of agricultural equipment), so that new war production activities—mainly servicing of aircraft, ship repairs, production of radio and signal equipment, and manufacture of small craft—would absorb most of the labour made available by the depression of the gun and ammunition programmes.

But these figures were not all that they seemed to be. First, the projected "release" of 17,000 men by June 1944 proved to be a bogus figure which had been derived by estimating the amount of labour that would be saved as a result of the cuts in financial authorisation for munitions expenditure made by the Defence Committee in mid-1943. What was not explained in December, and was revealed only after a Manpower audit of the figures several weeks later, was that the bulk of these financial cuts contained no labour component: the projects concerned had not been commenced, so that the estimated reduction in employment was based on calculations of the amount of labour that would have been employed had all approved projects been allowed to flourish.[5] Second, the 13,300 "offsets" claimed by the Department of Munitions (except for those engaged in producing agricultural machinery) represented a negation of the policy of reducing direct war production.

Leaving aside the tangle of fact and fiction, the central point that emerges from the December debacle is that the structure of command of the direct war effort was in disarray. The failure of Munitions to adhere to War Cabinet directions and the Department's clumsy attempt to cook the books is only part of the story. Munitions did have a legitimate complaint: the failure of the Defence Committee to deliver prompt and adequate reviews of weapons requirements in the light of changing circumstances, and the failure of the War Cabinet to deal with the problem of American orders. Ultimately Munitions was dependent on the flow of prompt and specific advice about requirements and was severely handicapped when decisions on these matters were delayed and ambiguous (as they usually were). But the Defence Committee's procrastination was not merely a matter of incompetence or unwillingness to face up to cuts in the Order of Battle. Increasingly during 1943 General Blamey, and through him the Chiefs of Staff, were bypassed in the formation of high level military policy. The rapport that had developed between Curtin and MacArthur had its advantages, but Blamey and the Defence Committee were usually uncertain about what had been decided and were not fully aware of the implications for Australian defence policy. To be sure, Blamey and his staff showed a lack of imagination and initiative in overcoming the communications blockage, but an important part of the problem which could not readily be resolved was MacArthur's domination of Curtin.

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[4] War Cabinet Agenda 401 and 402/1943, 22 Sep; War Cabinet Minutes 3070 and 3071, 14 Oct 1943.

[5] A further point was that the reductions were calculated from the July 1943 figure of Munitions bloc employment (real and imaginary), not the October figure.

The Munitions smoke-screen on the number of men that had been released was at least successful in diverting attention from the main issue. The War Cabinet was confused and was unsure why

> no appreciable advance towards the attainment of this objective [the release of 20,000 men] appears to have resulted from the reviews already made, notwithstanding that the financial reductions in the programmes when translated into terms of the manpower component should at least provide for the release of the figure of 20,000 laid down.[6]

Instead of attempting to unravel the tangle and explore the reasons for Munitions' apparent non-compliance, War Cabinet was satisfied with an overhaul of administrative arrangements. Two changes, recommended by the War Commitments Committee, were adopted. First, the Manpower Directorate was made responsible for diverting munitions workers out of the bloc. For this purpose a Technical Committee was established to advise the Director-General of Manpower on the low priority projects from which labour could be secured. Second, the expression "Munitions-Aircraft Bloc" was redefined to include ship repairs and the servicing of aircraft, an attempt to clarify what were and what were not legitimate "offsets".[7] Characteristically, senior Munitions officials were deeply offended by what they believed to be implied by these changes, and their relations with the Manpower Directorate deteriorated still further.

But no amount of administrative rearrangement would resolve the problem of over-commitment of resources in general, and of war production capacity in particular, until programmes were cut, and cut swiftly and substantially. Real effort to break the nexus was not in sight. The review of munitions production initiated by War Cabinet in October 1943 as an integral part of the manpower release scheme was not available until February 1944, and then the review resulted in a few modest cuts in gun and ammunition production.[8] In December the War Commitments Committee recommended that a further urgent review be initiated, but the Prime Minister rejected the recommendation—perhaps because a review was already in progress; perhaps because Curtin had lost faith in the relevance of Defence Committee reviews of programmes.[9] At this stage nobody was prepared to grasp the nettle.

During the first half of 1944 War Cabinet groped for an answer and found none that was satisfactory. The matter was complicated by the size of the reciprocal aid orders placed by the Americans, for by this time more than half the labour over-commitment in the Munitions bloc was due to reciprocal aid obligations. As explained elsewhere, these orders had been placed direct with Australian supply authorities and were subject to minimum scrutiny except within broad financial limits. The arrangement

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[6] War Cabinet Minute 3233, 21 Dec 1943.

[7] The bloc was now defined as follows: (i) aircraft production and servicing; (ii) shipbuilding and repairs; (iii) munitions items for the Services; (iv) all other requirements for the Services obtained through the Department of Munitions, finished goods only; (v) all other finished goods controlled by the Directors-General of Munitions and Aircraft Production.

[8] War Cabinet Agendum 80/1944, 19 Feb.

[9] War Cabinet Minute 3233. Nominally the recommendation was rejected on the grounds that a review of programmes to release manpower was outside the charter of the Defence Committee, a charter which restricted the Defence Committee's role to strategic matters.

enabled orders to be executed promptly and allowed the most appropriate authority to deal directly with the United States forces. The system had worked reasonably well in 1942 and the early part of 1943 when the flow of reciprocal aid was still moderate and the direct war effort was absorbing resources; but by the end of 1943 the informality of the reciprocal aid procedure conflicted with the new emphasis on indirect war production. In October 1943 the Americans had been asked to place orders through the appropriate Australian Service department and not directly with the Department of Munitions, but for some time this was not generally adhered to and in any case was an unsatisfactory way of slotting reciprocal aid orders into the priorities system; nor did the modification offer a means of limiting the overall level of American demand. Absorption of Australian labour by United States demands continued to expand rapidly and in the period October 1943 to June 1944 increased by 16,100 men and 7,500 women. This expansion was spread over a wide area and affected most of the key supply sectors of the economy. The total increase in employment was distributed, roughly, as follows:[1]

	Men	Women	Persons
Munitions-Aircraft "Bloc"	5,500	2,500	8,000
General supply (food, clothing, etc.)	5,600	2,000	7,600
Direct civilian employment	5,000	3,000	8,000
Total	16,100	7,500	23,600

This growth, which had not been provided for in October, negated a large proportion of the manpower release scheme.

The imposition of programme and direct employment cuts on the United States forces was, however, a matter of some delicacy. Curtin insisted that all international obligations entered into by Australia must be fulfilled, and was susceptible to the frequent American pleas for the supply of goods and services of "urgent operational necessity". The Prime Minister and Treasurer were also sensitive to the propaganda generated by Washington about the dependence of Lend-Lease aid on the flow of reciprocal aid, although in practice the equation was not as rigidly specified as Canberra believed. There was, therefore, no question of imposing cuts on the United States forces in the same way as on the Australian Services, and even upper limits were introduced with caution. In December War Cabinet took a first tentative step by inviting the Minister for War Organisation of Industry "to handle on behalf of the Prime Minister the question of limitations to be imposed and the procedure to be observed over the whole field of goods and services for the United States Forces".[2] Next month Makin, Minister for Munitions, proposed the use of a system of rationing of American munitions orders, an attempt in part to extricate his own department from the difficulties that had been created by previous overacceptance.[3] War Cabinet was

[1] War Cabinet Agendum 342/1944.
[2] War Cabinet Minute 3233.
[3] War Cabinet Agendum 43/1944.

forced to concede that the Americans would have to be told that all orders could not be delivered. It was agreed also that the War Commitments Committee and Production Executive should devise a means of fixing a maximum commitment of orders to be held at any one time as well as a maximum normal rate of throughput. In the meantime the maximum commitment was set at £12,000,000 per year and the monthly production rate at £1,000,000[4] but on condition that Australian Service requirements received priority and the release of 20,000 men from the bloc was "taken into consideration".[5] However, at the end of 1943 the value of reciprocal aid orders on hand amounted to £24,000,000. How this substantial backlog, equivalent to more than two years' production, was to be handled was not made clear.

At this point the search for a solution to the manpower problem appears to have lost its sense of direction and momentum. The flurry of activity between December 1943 and January 1944 was intended to unravel the knot tying men to munitions production. After ordering the usual round of reviews, reports and re-examinations, War Cabinet appears to have washed its hands of the matter. The question of screening American demands disappeared into a thicket of committees and sub-committees and only emerged in a coherent form in May-June 1944—far too late to have any effect on round one of the contest for manpower release. The evidence of inactivity and procrastination is pervasive. Consideration of a War Commitments Committee report dated 19th February was deferred until 3rd May, and then no decision was recorded until 9th June.[6] Another report by the same committee prepared in April was also shelved until June;[7] and on both reports decisions were tentative until August.[8] Most of the reports, reviews etc. were concerned with increasingly esoteric points of administrative detail: the niceties of departmental proprieties received more attention than the substance of the matter.

The net result was a device for limiting United States demands in the second half of 1944, a device approved in principle in January. American authorities were to be informed that reciprocal aid of all types would be limited to a monthly rate of £1,700,000 of which the munitions proportion should not exceed £740,000 per month.[9] Total orders on hand were also to be scaled down, and the direct employment of civilians by United States authorities was restricted to the figure as at 31st May.[1] The financial limit, however, was not regarded as inflexible and urgent ship repairs and aircraft servicing were not to be held up. The ceiling was not set at a figure which would eliminate the manpower over-commitment

[4] American orders were normally expressed in monthly terms to conform with reciprocal aid accounting requirements. A production rate of £1,000,000 per month involved the employment of roughly 11,000 men.

[5] War Cabinet Minute 3288, 21 Jan 1944.

[6] War Cabinet Agendum 80/1944; War Cabinet Minutes 3523 and 3611, 3 May and 12 Jun 1944.

[7] War Cabinet Agendum 309/1944.

[8] War Cabinet Minutes 3691, 3735 and 3740, 4 and 23 Aug 1944.

[9] War Cabinet Agendum 309/1944; Minute 3611, 12 June 1944.

[1] War Cabinet Minute 3523, 3 May 1944; War Cabinet refused to sanction any reduction in United States employment of civilians.

in munitions, or indeed elsewhere in the economy. The War Commitments Committee estimated that all American orders would have to be cancelled as from April if the Munitions section of the manpower release scheme was to have any chance of success. In practice, however, the ceiling proved to be a dead letter. By the time the system was adopted, in June 1944, American orders were falling steadily with the northward movement of the Allies. The opening of shipping routes across the Pacific also allowed a greater proportion of supplies to be obtained direct from the United States. Pressure on the Americans earlier in the year helped to curb the volume of orders, and in April the introduction of a more extensive and systematic method of issuing manpower certificates assisted in determining the real cost of new projects.[2] Ultimately, however, the problem solved itself.

In the absence of any effective screening of either Australian or American projects before the end of June, the Munitions portion of the manpower release scheme contributed little to the desired reallocation of manpower resources. As notified officially, the results were as follows:[3]

Proposed release of men according to October plan .		20,000
Less "offsets" allowed for—		
(a) new munitions projects	2,400	
(b) United States commitments[4]	3,300	
(c) transfer to agricultural machinery	1,200	
		6,900
Balance to be released		13,100
Actual reduction in male employment		9,000
Over-commitment of Munitions bloc as at 30 June 1944		4,100

It would be misleading, however, to take these figures at face value. No very reliable estimates of employment in the bloc were made, and the figure of 9,000 men released between October 1943 and June 1944 is at best an estimate. The Department of Munitions claimed to have released more men than the Manpower Directorate believed, and the reported figure contained an important element of compromise.

More important, the labour that was released added very little to the indirect war effort, particularly to food production. First, it was found very difficult to divert well paid munitions workers to poorly paid agricultural jobs, and in any case comparatively few men were found to be suitable for farm work. Most munitions employees had been recruited from the cities or country towns and had little or no experience of rural work. Second, the method of release from factories was subject to valid

[2] War Cabinet Minute 3432, 4 Apr 1944. Some uncertainty had developed about the authority responsible for the issue of certificates under varying conditions. This decision centralised responsibility with the War Commitments Committee and extended the use of certificates to cover all new direct war projects. Certificates had been used since May 1943 as a means of checking on the availability of labour before projects were finally approved but the system had broken down repeatedly.

[3] War Cabinet Agendum 342/1944.

[4] The additional amount of labour that would be required for United States projects after the imposition of the ceiling of £740,000 per month.

criticism. The Technical Committee that had been appointed to extract men from the bloc had been instructed to concentrate on low priority projects, but there was no clearly defined list of priorities on which it could work. Nor was there any settled policy on the maintenance of nucleus production. Moreover, the Technical Committee was inclined to exclude Service representatives from its meetings and bypass the specialist advice of the Services Equipment Committee. The results were that labour was withdrawn on a largely random basis and from factories in areas where no other high priority work was offering. Indeed, it was found necessary to continue employment in some regional feeder factories on the manufacture of rifles, Bren guns, Vickers guns and spares (at a time when stocks of these items were already excessive) because the Manpower Directorate was unable to find suitable alternative employment in the area. (The movement of workers was inhibited by the housing problem.)[5] Third, on the insistence of trades unions the "last to come, first to go" rule was observed, a rule which was the antithesis of manpower conservation. Many of the "last to come" were women whose alternative employment opportunities, particularly in country towns, were severely limited. In May 1944 200 married women were withdrawn from the Lithgow factory in New South Wales as a result of the depression of small arms manufacture but they could not be placed.[6]

The Army release scheme was much more successful both numerically and effectively. The Manpower Directorate grumbled throughout about the high rejection rate of its nominations, but by the end of June 18,128 men had been released. To be sure, the dairy industry had not benefited to the extent that had been intended: Army's rejection rate was a little higher than average for former dairy farmers and, as mentioned above, many men resisted pressure to return to the unremitting labour of dairy farming; and, moreover, on farms which might by now be in a run down state. In general, however, food production was the main beneficiary of the scheme, as revealed in the following summary:[7]

	Recommended for release	Releases approved
Food production:		
Dairying	9,851	4,496
Other farming	10,963	6,004
Food processing	3,863	2,178
Ancillary industries	654	358
Total food	25,331	13,036
Other industries	9,469	5,092
Total	34,800	18,128

[5] With foresight a number of factories could have been converted to the manufacture of urgently required civilian items, but the planning required was not forthcoming.

[6] A detailed criticism of the system of release from Munitions appears in Defence Committee Agendum 118/1944, 16 Jun.

[7] War Cabinet Agendum 342/1944.

Together with the use of prisoners of war, the scheme was mainly responsible for the restoration of about 18,000 rural workers in the nine months period—a little over ten per cent of the amount by which employment had fallen since 1939. While this seemed encouraging, it did not help arrest the fall in production in some industries, for machinery and the quality of improvements had deteriorated to such an extent that additional labour was required to replace depleted capital. On dairy farms a peculiar situation had arisen because of the high age composition of those remaining on the farm. The increase in dairy farm employment over the period was about 5,900 (excluding 2,300 prisoners of war), but the wastage rate by deaths, incapacity and retirement was so high that the net increase in strength was under 4,000.

A useful source of additional labour for the indirect war effort was provided by a reduction in labour strength of the Allied Works Council. In October 1943 the War Cabinet had stabilised the Council's work force, but subsequently a total reduction of about 15,000 men was found possible following the completion of construction programmes and the withdrawal of a large proportion of the American forces. Again, the manpower value of the diversion was less than the figure suggests. The minimum eligible age for employment by the Council was 45 and many men were nearing retirement age; very few were experienced rural workers. Contraction of the Council's activities allowed the resumption on a very modest scale of civilian building and public works projects; employment on non-Allied Works Council construction increased by 6,000 in the nine months.

Nevertheless, the degree of over-commitment had not been reduced much below the level of mid-1943. As shown in the table which follows, although the proportion of the male work force engaged in direct war work had fallen from 47 to about 41 per cent, this was to a large extent counter-balanced by erosion of the quality and quantity of capital after more than two years of an almost complete stoppage on new and replacement investment outside the munitions field. The attrition of war had also an adverse effect on the physical quality of much of the work force, particularly those discharged from the Services for reasons unrelated to the manpower release scheme and included nominally in the work force. One reason for the continued chronic shortage of men in key areas was the failure of the male work force to expand during 1943-44. In June 1943 it had been estimated that male employment would increase by about 24,000, but the actual rise was a mere 1,000 even after the inclusion of some 9,000 Italian prisoners of war. The short-fall was due to an abnormally large number of formerly retired persons, and those who had deferred retirement, leaving employment following the improvement in military prospects. It would be unreasonable to suggest that such a trend should have been anticipated in view of the uncertainty of war, but it does indicate the extent to which the manpower over-commitment was underestimated, even by the Manpower Directorate, in mid-1943, for very little detailed consideration was given at that time to the rising age composition of the remaining civilian male work force. Another disappointment was the

failure of female employment to rise as had been predicted. The increase of 16,000 was well below the target of 25,000 to 33,000 despite increasing use of the power of direction. The strength of social pressure and prejudice, tenderness towards interference with the family unit, trade union opposition, generally low wages and poor conditions, and employment opportunities restricted to the most menial of tasks had taken their toll.

AUSTRALIAN MALE AND FEMALE EMPLOYMENT
1943 AND 1944
(thousands)

	Males		Females	
	Jun 1943	Jun 1944	Jun 1943	Jun 1944
1. Defence Works . . .	694	670	46	49
2. Allied Works	48	32	—	—
3. Munitions bloc . . .	91	76	38	28
4. Other war production .	320	256	106	85
5. Direct war work (sub-total)	1,153	1,034	190	162
6. Civil manufacturing . .	118	184	82	107
7. Rural industries . . .	382	400	55	40
8. Other employment . .	866	902	496	516
9. Total civil and indirect war (sub-total) . . .	1,366	1,486	617	663
10. Total employment . .	2,519	2,520	807	825

Notes:

The figures are unrevised.

Row 1, includes deaths (about 15,000), missing and prisoners of war (about 33,000), but excludes routine discharges and special releases.

Row 3, government and semi-government employment in munitions, aircraft production and shipbuilding establishments and annexes.

Row 4, primarily private munitions contractors and those employed directly by Allied governments. Figures are a rough approximation for direct counts not made.

Row 7, includes about 9,000 prisoners of war.

Source: Commonwealth Bureau of Census and Statistics, Memorandum on Total Manpower, 10 Jul 1944.

The most conspicuous consequences of the deficiencies in manpower restoration to indirect war industries during 1943-44 were summarised succinctly by the Acting Commonwealth Statistician in July 1944:

(a) they made it necessary last November to reduce drastically quantities of food to be supplied in 1944 from Australia to United Kingdom [and] to United States forces in South-West Pacific and South Pacific Areas and to Australian civilians . . .;
(b) processing of food for forces, [the] United Kingdom and civilians was curtailed for lack of labour;

(c) although some improvement was made in supplies of fertiliser, agricultural machinery and materials for rural industry and other essential industry, grave deficiency continued in respect of materials for maintenance and expansion of production. This now imperils maintenance of present low production in some key industries;
(d) labour supplied for coal mining and essential mineral production continued to be deficient;
(e) production of timber lagged so far as to embarrass present essential production and to jeopardise future essential activities dependent on timber;
(f) although the civilian clothing position has improved, labour supplies continue deficient, price stability was barely held and then only at the cost of subsidies . . .;
(g) severe labour shortages persisted in respect of rubber manufacture including tyre retreading, canister making and general engineering and repairs;
(h) transport and public utilities generally were seriously short of labour;
(i) hospital staffs were so short as to seriously embarrass provision of hospital services;
(j) Commonwealth departments (including the Navy secretariat) could not be fully supplied with clerical and administrative staff. The implementation of the pay-as-you-earn tax plan was and is seriously impeded for lack of clerks . . .;
(k) very little labour could be supplied for essential building, including Government projects to ease the housing shortage and, even if labour could have been supplied, labour was lacking to produce and transport most building materials.[8]

In short, the position was much the same as it had been a year earlier with the qualification that in some sectors labour shortage was even more serious than it had been and that no labour was in sight for the rapidly escalating plans for post-war reconstruction. For 1944-45 the Government was to find it necessary to return to the drawing board.[9]

[8] Commonwealth Bureau of Census and Statistics, Memorandum on Total Manpower, 10 Jul 1944.
[9] For a discussion of manpower policy in 1944-45, see Ch. 22.

CHAPTER 15

MUNITIONS IN RETREAT

THE STRUGGLE FOR PRODUCTION CONTROL

IN a technical sense the achievement of the Department of Munitions and its associates in 1942 had been considerable. Within a short period a high degree of self-sufficiency in a wide range of ordnance, small arms, ammunition and explosives had been achieved. Munition factories and annexes had been erected throughout the Commonwealth in a deliberate and sensible policy of decentralisation; the effective combination of the output of these units was itself an impressive logistic achievement. A large number of workers had been trained and had acquired new skills at breakneck speed, and significant technical innovations had resulted from the pressure of the emergency. Indeed, capacity for the manufacture of arms and ammunition had been created on such a scale that output at the end of 1942 was in many instances embarrassingly high.

Munitions production in 1942 had been planned on the necessary assumption that a major war would be fought on the Australian mainland and that there would be very little support from other countries. There had been no time for the preparation for what became known subsequently as a "consolidated programme"—an integrated production plan for the three Services and the Americans. Productive capacity had been created in response to individual orders by the Services and with a minimum of formality.

But the *ad hoc* approach of 1942 was neither necessary nor desirable for the second year of the Pacific war. The exhaustion of the Japanese thrust to the south, the build up of American forces in Australia, improvements in the supply and safety of trans-Pacific shipping, and the expansion of Lend-Lease indicated the need for an overhaul of munitions production objectives. Of particular importance was the need to integrate American and Australian requirements for the inevitable island campaigns which would place a premium on firepower and mobility in the air and on the water. What part Australia would play in the manufacture of the new and more sophisticated equipment that would be required had yet to be determined. For manpower reasons it had become evident, however, that if new projects were to be initiated some others would have to be curtailed severely.

In partial recognition of the altered circumstances the Department of Munitions made some attempt to put its house in order by placing increased emphasis on efficiency. The headlong expansion of 1942 had been accompanied by much duplication of capacity particularly in the manufacture of small arms and ammunition. Accordingly plans were prepared to reduce production of ammunition at Maribyrnong in Victoria, St. Mary's in New South Wales, and Salisbury in South Australia; and to concentrate production in those areas where the pressure on available

labour was less intense. Further, the Director-General of Munitions, Essington Lewis, warned Boards of Area Management late in 1942 that local empire building had to stop and that additional capacity should not be created unless a definite post-war need had been established. Similarly, divisional directors were instructed to eliminate the practice of accepting orders and then creating capacity, the most common method of operation in the early days of 1942. Henceforth capital expenditure was to be curtailed severely and all proposals for new expenditure were to be investigated thoroughly. The emphasis on economy and improved efficiency led to the creation in February 1943 of a Directorate of Technical Practice to assess production methods and to recommend improvements in the use of materials and labour.

But the mid-summer clean up, which in any case was not pursued with much enthusiasm, did not touch the central issue. Significant alteration of production targets and reallocation of capital and labour was dependent on preparation of the consolidated munitions programme. On 15th May 1942 War Cabinet had instructed the Defence Committee to prepare detailed production targets for all items.[1] The programme was intended to be an instrument of long-range planning with the schedule itemising monthly figures for the period to June 1944. By the end of the year very little progress had been made and War Cabinet had become increasingly restive because of the relationship between the programme and manpower policy. For its part the Defence Committee was handicapped by the Army's disinterest in what appeared to be an academic exercise: the Army had grown fond of its direct access to Munitions and the comparative freedom from scrutiny which this permitted. Added to the Defence Committee's real and imagined difficulties was uncertainty about Australia's role in the offensive against Japan and the need for the reorganisation of units following the return of the 9th Division from the Middle East in February 1943. Ultimately, however, the delay reflected the reluctance of munitions producing and consuming authorities to accept the detailed examination which preparation of the programme implied, and the consequences of the exhaustion of manpower resources.

That the issue could be postponed no longer was demonstrated to the satisfaction of the War Cabinet by the obvious overcapacity in the simpler forms of munitions in January and February 1943. Overcapacity and overproduction had led to a substantial rise in overseas assignment which was in direct conflict with the need to rebalance the war effort. The exports were justified on the grounds that the items were needed urgently by countries which comprised the Eastern Group Supply Council, that they would make a useful contribution to Australia's post-war trade prospects, and that they were required so as to be able to maintain production at an efficient operational level. In each case the argument was dubious in fact and validity, and in any case all were beside the point. In December 1942 the War Cabinet indicated that the only source

[1] War Cabinet Minute 2149.

of labour, particularly technicians, for the proposed expansion of aircraft production was to be from within the Munitions group.[2] In January the Prime Minister made the point with greater clarity when he warned the Defence Committee that "it is unwise to approve commitments for overseas orders without the reservation that the resources and labour used to produce these munitions may require to be diverted to other purposes".[3] And then in March the War Cabinet reprimanded the Defence Committee for "the grave delay in determining a firm basis for assignment of surplus production in relation to a diversion of manpower and productive capacity to other urgent needs".[4]

The subsequent attempt to curtail overseas assignment, reallocate munitions capacity from low to high priority work, deal with overcapacity and the maintenance of "nucleus" production, extract labour from Munitions and integrate American and Australian requirements, occupied the remainder of 1943. The story is one of unrelieved confusion, of misinformation and incomplete information, of petty squabbles between Munitions and the Army and between Munitions and the Manpower Directorate, and of lack of leadership from the Prime Minister and the War Cabinet. There are many parallels with the manpower story, although with munitions the confusion is even more pronounced because of the technical nature of the argument. Even if the full story could be unravelled, the exercise would be unprofitable. The substance as recorded below is sufficient to indicate the limited nature of the munitions reorientation achieved by the end of 1943.

Much of the confusion originated with the presentation, in an incomplete form, of the long awaited consolidated munitions programme in mid-April 1943. In an effort to expedite matters War Cabinet instructed at the end of March that the programme should be submitted piecemeal if necessary. The parts that were ready related to overseas assignment; weapons and ammunitions were to be made the subject of separate submissions. The submission made neither provision nor allowance for the needs of the Americans. No firm recommendations were made about the future of production after the completion of current orders. No estimates were available about the amount of labour that would be released as a result of the limited review that had been made. The submission was a hastily-devised document which merely amalgamated figures that had been supplied by Service departments. As an instrument of planning it was virtually useless.[5]

However, the April review did at least yield a quantitative measure of surplus munitions capacity. The figures provided were rough and incomplete and probably underestimated the extent of the surplus, but its size could not be concealed. Out of an estimated annual value of

[2] War Cabinet Minute 2503, 7 Dec 1942.
[3] War Cabinet Agendum 50/1943, 29 Jan.
[4] War Cabinet Minute 2714, 23 Mar 1943.
[5] War Cabinet Agendum 169/1943, 12 Apr.

production of £100,000,000 22.2 per cent was regarded as surplus to the current or expected needs of the Services. This was detailed as:

Annual production surplus	Estimated annual value
600 25-pounder guns	£3,300,000
150 3.7-inch A.A. guns	1,275,000
2,000,000 rounds 25-pounder ammunition	13,000,000
400,000 rounds 3.7-inch ammunition	3,400,000
600,000 gun-carriers	1,200,000
	£22,175,000

The list contained main items only. Less expensive items such as 3-inch mortars, mortar-bombs and .303-inch cartridges were also in heavy surplus; and for this group production cuts of around fifty per cent were recommended by the Defence Committee. The reduction in relation to designed capacity was even greater. Further, stocks of most of the simpler forms of munitions were so high that overseas assignment was approved simply to reduce the pile.[6] In the case of gun-carriers, for example, the Army reported in June that stocks were sufficient to "cover all requirements" until June 1944. Typically, information about stockpiles dribbled in during April, May and June; at no stage were up-to-date figures available in a comprehensive form to relate to current production targets.

In an effort to justify the Army's position (and thereby shifting portion of the blame to Munitions) Blamey assured the Prime Minister that the Army had reviewed its needs constantly by means of the Services and Munitions Co-ordinating Committee and that every effort had been made to use manpower as economically as possible. By contrast, he claimed that the Department of Munitions had committed three sins: it had placed orders with itself for Army equipment in order to maintain continuity of production even though the orders were surplus to the Army's requirements; it had sought export orders from the Ministry of Supply in London and the Eastern Group Supply Council in India; and it had accepted special orders, outside the usual supply channels, for South Africa and New Zealand for the manufacture of bullet-proof plate, machine-gun carriers, fuses and ammunition. In self-defence Munitions charged the Army with failure to keep the Department fully informed of its requirements, and with importing equipment from overseas sources when supplies were available from within Australia.[7] Charge and counter-charge were both accurate as far as they went, but each side ignored the root cause —the continued over-ambitious plans for expansion to which both were party.

The most disturbing aspect of the April review was, however, that on the rough estimates that were then available no labour would be released from the Munitions bloc. While production of 25-pounder guns and ammunition, gun-carriages, mortars and small arms ammunition was reduced, other parts of the programme—mainly aircraft production, small craft, shipbuilding and repair—would absorb the labour so re-

[6] War Cabinet Agendum 99/1943, Supplements 1 and 2.
[7] War Cabinet Agendum 178/1943, 14 Apr.

leased. The best that Munitions could offer was that 13,000 men and women would no longer be needed for expansion. This, in the Department's view, was an achievement.

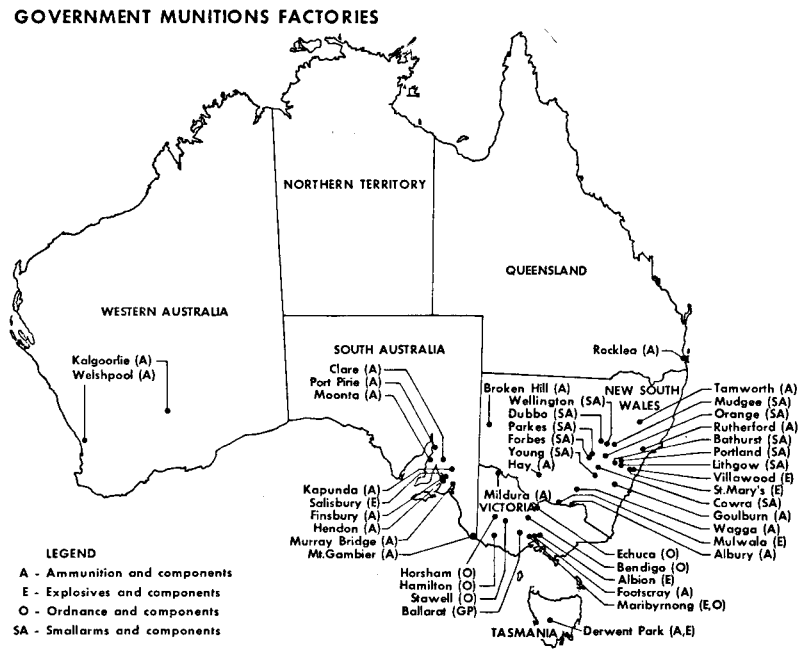
The revised schedules were accepted by the War Cabinet subject to review and report by the War Commitments Committee and further consideration by the Defence Committee if necessary. Munitions was instructed to bring into production any additional capacity required by the Army. To maintain a more systematic and regular control over munitions production, the Defence Committee was ordered to report at least half-yearly on items procured from Munitions.[8] But the hard task was side-stepped by War Cabinet. Munitions should and could have been squeezed much harder than this; little progress could be achieved in reallocating labour to indirect war needs, or even in providing skilled tradesmen for high priority new projects, unless the consolidated programme was thoroughly scoured. Approval of the incomplete programme in April, although conditional, meant that a decision on fully-revised schedules was deferred until the end of the year, and did not become effective until 1944. Much more could have been expected of the War Cabinet at this critical stage, but as with manpower policy the episode illustrates the extent to which the internal interests of the Services and Munitions determined the course of events.

The approach to the question of overseas assignment of munitions was also tentative. Admittedly this was a complex matter. The unauthorised acceptance of overseas orders by Munitions had to some degree forced the Government's hand. Contracts could not be cancelled unilaterally and without notice if Allied countries had organised their own munitions supply on the assumption that Australia would assign certain specialised items. There was also an obligation to maintain continuity of supply of spare parts and ammunition for equipment already in use in overseas theatres. War Cabinet therefore endorsed Munitions' proposal to allow contracts to be completed and to continue maintenance automatically.[9] New contracts were not to be accepted, however, without specific approval. Again the decision was based on inadequate information. Canberra had been kept very much in the dark by the London Assignment Board and the Eastern Group Supply Council in India about current stocks and future requirements. Some of the contracts on which Munitions was working could have been cancelled or modified by negotiation, for surpluses of gun equipment and artillery ammunition were accumulating abroad as well as in Australia. The Government's attempts to discover the facts were sporadic but, as will be seen, overseas authorities were in any case reluctant to yield them.

The munitions programme was under continual review between May and August as a result of pressure by the War Commitments Committee. A further revision was produced in June which recommended in the

[8] War Cabinet Minute 2771, 15 Apr 1943.
[9] War Cabinet Minutes 2771 and 2772.

majority of cases further substantial reductions, particularly in artillery and its ammunition (see table), but this was not endorsed pending clarification of overseas requirements. In the meantime production was to continue on the basis of the April review and Munitions was to produce a report on the reorganisation required to effect the reductions.[1]



The further contraction recommended involved important issues of policy. A number of factories would have to be closed, or made available to private industry or to the Department of Aircraft Production. The closure of factories had employment and political significance. A Federal election was a few weeks away (it was held on 21st August) and careful consideration had to be given to the alternative of closing smaller regional factories which would improve overall efficiency, or of contracting mainly in metropolitan areas (where alternative employment opportunities were of course abundant) and encouraging decentralisation as an element of post-war policy. Also involved was the vexed question of "nucleus" production and the appropriate stockpile of empty ammunition components. Munitions' view on these was required by 30th September.

In origin and detail the "overseas clarification" tended to confirm Canberra's worst suspicions. A cable, through the Eastern Group Supply Council rather than through the usual channels to London, advised that a new policy had been adopted for a united Empire munitions production

[1] War Cabinet Minute 2976, 13 Jul 1943. The instruction that production should continue *pro tem* was based on Rule 9 of the Prime Minister's "principles which should govern the extent and nature of the Australian war effort" in War Cabinet Agendum 311/1943.

MUNITIONS PRODUCTION: DESIGNED CAPACITY, ACTUAL AND RECOMMENDED RATES, SELECTED ITEMS 1943

(monthly production rates)

	Designed capacity	Actual production rate: Jan-Jun	Actual production rate: Jul-Sep	Production rates recommended by Defence Committee in: April	June	August
Artillery						
25-pound Howitzer	70	45	9	20	10	Discontinue
24-pound Short		3	21	—	—	Discontinue
2-pounder A.T.	80	19	10	—	—	—
6-pounder A.T.		78	31	20	10	Discontinue
40 mm Bofors A.A.	40	10	14	30	30	10
3.7-inch A.A.	24	16	4	20	10	Discontinue
Guns and mortars:						
Owen sub-machine	2,000	2,322	1,541	2,000	1,000	500
Austen sub-machine	2,000	1,633	1,659	2,000	2,000	500
Rifles, .303-inch	16,000	12,717	16,420	16,000	16,000	8,000
3-inch mortars	200	104	11	80	Nil	40
Ammunition, artillery:						
25-pounder H.E.	500,000	295,610	273,578	250,000	120,000	30–50,000
40 mm A.A.	200,000	13,424	38,408	160,000	100,000	100,000
3.7-inch A.A.	75,000	20,924	18,907	16,000	8,000	8,000
Small arms ammunition:						
.303-inch ball	60 m.	27.2 m.	20.5 m.	40.0 m.	40.0 m.	20.0 m.
9 mm ball — Owen and Austen	15 m.	7.2 m.	5.9 m.	13.0 m.	13.0 m.	10.0 m.
Ammunition — mortar and grenades:						
3-inch mortar H.E.	250,000	141,846	68,608	190,000	100,000	150,000
Grenades No. 36 — hand, rifle	120,000	121,244	71,178	120,000	100,000	120,000
Mines:						
Mines A.T.	60,000	51,685	48,983	60,000	60,000	15,000

Source: War Cabinet Agenda 169/1943 Supplement 1; and 439/1943 Supplement 1.

effort on the basis of each portion of the Empire undertaking the production best suited to its industrial capacity and geographical location. The overproduction of munitions on an Empire basis was acknowledged; in an effort to rationalise capacity the Council proposed, abrasively, that "The heaviest cuts in programme will be taken by the United Kingdom and Canada, who can most easily adjust their programmes and require maximum relief on labour and materials."[2] In other words, Australia was seen as a supply base for the United Kingdom in the latter stages of the offensive against Japan. In more detail, Australia would be the only portion of the Empire manufacturing 3.7-inch guns, and would be the primary supplier of 25-pounder ammunition. Munitions reacted enthusiastically[3] but the Defence Committee, conscious of MacArthur's shadow, dismissed the plan as a straw in the wind. The conclusion was that programmes would be related to Australia's interests (which included support for the United States), not to those of the United Kingdom.[4]

Confirmation of the stringent control of munitions assignment outside the South-West Pacific Area opened the way for yet another revision of the programmes. On this occasion the Services Equipment Committee, the sub-committee of the Defence Committee which was responsible for the detailed work, was in a better position to assess the equipment needs for the Pacific offensive due to be launched in September. Jungle warfare required a switch in emphasis from the heavier gun equipment to small arms—rifles, machine-guns, mortars and grenades—and to mobile anti-aircraft equipment. Stocks of these were sufficiently high to permit reductions in planned production, but output of some ammunition items, such as 3-inch mortar, grenades, and 9 mm ball for the Owen and Austen, would need to be increased. Overall, however, this further reappraisal of munitions requirements known as the August review was easily the most realistic of 1943 and marked the first serious effort by the Services to curb their demands.

The August review formed an integral part of the plan of 1st October to rebalance the war effort by the release of 40,000 men—20,000 from munitions—by June 1944. But implementation was held up pending completion of a Munitions feasibility study. The report, ordered in July for the end of September, was not ready for consideration with the Defence Committee's recommendations in mid-October. Details were finalised on 30th November only after the intervention of the Prime Minister. There were some exonerating circumstances: in view of the decision to favour factories in the country and in the smaller States, detailed reprogramming of ammunition filling was required; attention also had to be given to the manpower and housing situation in each of the manufacturing areas. But the primary reason for the delay of four and

[2] Cable, 8 Jun 1943; considered by War Cabinet, 13 Jul 1943.

[3] Jensen, Secretary of Munitions, drafted War Cabinet Agendum 268/1943 on the basis of full acceptance of the Eastern Group Supply Council figures, but this was subsequently withdrawn.

[4] From Jensen's private notes on the discussion of War Cabinet Agendum 268/1943, Supplement 1.

a half months was simply lack of interest in manpower saving and rationalisation. To the end of 1943 the men of Munitions were preoccupied with the business of production and anything which interposed was an irritating distraction. Jensen, Secretary of Munitions, writing years after the event, reflected accurately the current mood of the Department when he described a letter from the Prime Minister complaining about surplus production of gun ammunition as an "interruption" to "the conduct of a huge business such as was the Munitions Organisation of 1943".[5]

The plan for contraction, when finally approved on 8th December,[6] provided for the bulk of the reduction to fall on private contractors. As far as possible work formerly performed by contractors would be taken over by government factories, thus releasing resources for conversion to civilian production. In addition, the policy of assisting the less populated States and country areas was re-endorsed to the extent that the government factories which were to be converted to alternative uses were located in Queensland, New South Wales and Victoria. Thus, the ammunition factory at Rocklea, Queensland, was already in process of conversion by the Department of Aircraft Production, for aero-engine reconditioning; Tamworth, New South Wales, had been made available to the Department of Commerce and Agriculture for food dehydration; Katoomba and Young, New South Wales, and Stawell, Victoria, were converted for clothing and textile manufacture.[7] When these changes were complete the number of munitions factories would fall from a 1943 peak of 47 to 41.

However, the August review would not in the view of the Minister for Munitions permit the release of 20,000 men by June 1944 as directed by the War Cabinet. The most that could be made available was about 17,500, but even this figure was unlikely to be reached because it made no allowance for the diversion from within the Munitions bloc to "absolute priority" work on small marine craft construction, aircraft production, ship repair, and manufacture of radio location equipment. Further, much of the labour employed by Munitions was unsuitable, because of age or physical condition, for active service or arduous employment.[8]

This forecast was vigorously disputed by the Manpower Directorate, as recounted in the previous chapter, but was at least consistent with the pattern of manpower release by Munitions since April 1943. Output and employment had reached a peak in that month, but the April review was slow to take effect. Employment fell more rapidly after June although not as quickly as had been expected. As shown in the table, total employment fell between March and November by 18,000—12,000 men and 6,000 women—but against this the number in aircraft production rose by over 6,000, in ship construction and repair by over

[5] From Jensen's rough draft of the history of Munitions, pages not numbered.
[6] War Cabinet Minute 3204, 8 Dec 1943; Agendum 439/1943, Supplement 1.
[7] A proposed ammunition factory at Swan Hill, Victoria, was abandoned.
[8] War Cabinet Agendum 439/1943, Supplement 1.

500, and employment was also expanding in small marine craft construction.

The slow contraction of the first few months was understandable. As Munitions was fond of reminding the Manpower Directorate, there was an inevitable lag in a decision such as this becoming effective. In addition Munitions had to contend with the loss to the Services of a large proportion of its young men and the introduction of more women and older men. There was validity, then, in the argument that during the course of 1943 labour productivity tended to fall, a trend reinforced by the easing of psychological pressure. But there was also substance in the Director-General of Manpower's repeated allegations that production of some items had been continued for the sake of retaining labour; that actual labour requirements were exaggerated; and that the decline in efficiency was much less pronounced than Munitions claimed. When the need arose Lewis and Jensen exploited the fact that the April review remained the authorised basis for munitions production until December; when challenged by the Prime Minister or the Director-General of Manpower, about overproduction or inadequate labour releases, they retorted either that the War Cabinet had yet to approve a variation in target figures or that laymen knew nothing of the technical matters involved.

Many of the countless disputes of 1943 arose because of the division of manpower responsibilities between the Directors-General of Manpower and Munitions. Manpower had control of civilian labour allocation and, after the acceptance of manpower rationing in May 1943, over global allocations for Munitions and the Services. Detailed allocation within Munitions was Lewis's responsibility, a task which became increasingly important as labour for new projects had to be provided from within the bloc. But difficulties arose in May and June 1943 when the Manpower Directorate, convinced that insufficient labour was being released by Munitions, attempted to sift and direct munition workers. The issue was complicated by uncertainty about the standing of men employed by contractors and sub-contractors—were they within the province of Munitions or of Manpower? After a series of stiff exchanges, the issue was resolved by drawing a distinction between government factories (including annexes) and private contractors. Lewis would control the former and Wurth the latter. But definition of the boundary did not solve the problem or end the disputes. Manpower's tactics were undoubtedly irritating for those preoccupied with the business of production, but on the basic issue its view was correct—in 1943 as towards the end of 1942 Munitions was of its own volition and by Cabinet direction attempting too much.

RESTRUCTURING PRODUCTION

Associated with the gradual depression of production of most of the standard items of munitions hardware in 1943 was continued addition to the range of manufacturing activity. Development of the aircraft

production programme was the main example, but will be treated separately in the next section. Another large additional responsibility was the manufacture of small craft and landing equipment for the island-hopping campaigns of 1944-45. In addition, many other projects, for example automotive spare parts, internal combustion engines, refrigerators and agricultural implements, were initiated or expanded. All too frequently, however, contracts were accepted to maintain production units at a so-called operational level of efficiency in case of emergency. The argument for retention was presented most forcefully when female labour was involved, for women were alleged to have few alternative employment opportunities. The absorption of labour in new projects was one of the main reasons for the continued munitions over-commitment through 1943 and early 1944.

EMPLOYMENT IN MUNITIONS FACTORIES AND ANNEXES, 1943

	Factories		Annexes		
	Men	Women	Men	Women	Total
31 Dec 1942	32,550	20,360	16,266	5,196	74,372
31 Mar 1943	33,928	22,812	16,502	6,018	79,260
30 Jun 1943	32,210	22,548	13,885	5,388	74,031
30 Sep 1943	30,082	20,175	11,967	4,785	67,009
30 Nov 1943	27,598	18,862	10,820	3,906	61,186

Note: The figures refer to government factories and annexes only, and makes no allowance for the large number employed, full and part-time, by private contractors. Munitions made a rough estimate of employment by contractors based on value of output and pay-roll statistics, and these suggest the orders of magnitude involved:

Apr 1943	Jun 1943	Sep 1943
77,000	80,350	68,400

The Gun Ammunition Production Directorate was the first to be affected by the cut-back, and one of the first to undertake supplementary projects. The directorate was reorganised in March 1943 in anticipation of the general production review, for an increasing number of Service orders were nearing completion and new ones were being placed on a greatly reduced scale. A new activity from the beginning of 1943 was the co-ordination of automotive spark plug production, a responsibility previously of the Department of Supply. Production was lagging badly and back orders, mainly for the Services, exceeded 1,000,000. Munitions succeeded in lifting output from 50,000 to between 60,000 and 70,000 per week and by 1944-45 all Service needs and most civilian requirements were being met, including those for tractors and heavy earth-moving equipment. Small quantities were also exported. The attempt to diversify into more complex automotive parts—gears, voltage regulators, wheels—was less successful because quantity production of standardised components could not be achieved.

A much larger new enterprise was the manufacture of bright nuts and bolts for the Services and United States forces. Hitherto nuts and

bolts had been manufactured by hand-forging methods, and spares for Australian and American equipment were in short supply. With the depression of the gun ammunition programme equipment for the manufacture of fuses was rendered idle, but could be used for the automatic machining of nuts and bolts which left a highly polished or "bright" finish. Initial orders for 21,000,000 nuts and 14,000,000 bolts were sufficient to require nine annexes to support the work of government factories for two years. The orders proved to be excessive, although the project was still an important part of the directorate's activity in 1945 —mainly to keep the fuse-making machinery in working order.

Refrigerators for Service and urgent civilian requirements were transferred from the Ordnance Production Directorate to Gun Ammunition in August 1943, again to help use available manufacturing capacity. Service requirements were completed in July 1944. Thereafter production was continued on the basis of orders placed by the Contracts Board. In all, about 30,000 complete units were manufactured, although this was not sufficient to meet the backlog of demand. The main constraint was the manufacture of fractional horse-power electric motors. Before the war the bulk of these were imported, but in 1940 and 1941 Crompton Parkinson (Australia) Pty Ltd followed by Emmco Pty Ltd developed Australian manufacturing capability for about one-half of domestic requirements. Shortages of wire, bearings and other materials prevented further import replacement.

Diversification in the Ordnance Production Directorate was undertaken under different circumstances. Productive capacity was still heavily committed throughout 1943 in the manufacture of weapons; the August review was unlikely to release labour and equipment until well into 1944. Nevertheless, the erosion of rural manpower had been so extensive and the food outlook was now so serious that urgent measures had to be taken to obtain resources for the manufacture of agricultural machinery. On 13th July War Cabinet declared food a "munition of war" and responsibility for the production of agricultural machinery was transferred from the Department of Commerce and Agriculture to the Department of Munitions.[9]

The task before the directorate was formidable. Mechanisation of Australian farming up to the outbreak of war had been extremely lopsided. Large-scale mechanisation had been confined to cereal, hay and sugar growers; over fifty per cent of farmers in these industries used tractors, and the use of modern cultivators and harvesters was extensive. On the other hand, mechanisation of dairy farms, mixed farms, orchards and poultry farms was low; on small vegetable farms—and small farms predominated—it was negligible. Adequate skill and capacity existed for the manufacture of large ploughs, harrows, seed drills and harvesters, but there was little knowledge about potato diggers, incubators, brooders, milking machines, spray outfits, onion rakes and the host of light equip-

[9] War Cabinet Minute 2972, 13 Jul 1943; Agendum 226/1943.

ment required for the improvement of efficiency on dairy farms, orchards and mixed farms. Production of all types of machinery was required urgently, but more particularly the small implements and machines for non-cereal food production.

Special arrangements were necessary to induce manufacturers to undertake the required new production. Because of uncertainty of demand, the Department of Commerce and Agriculture guaranteed to purchase any unsold stock, thus providing manufacturers insurance against loss. The engineering expertise of the Ordnance Production Directorate was also made freely available. But the programme for 1943-44 made heavy weather, mainly because of labour shortage. Most established agricultural machinery firms were still deeply involved in the production of weapons and were unable to reconvert quickly. An estimate submitted to the Production Executive in February 1944 indicated that firms were short of 2,000 skilled workers even though agricultural machinery had been given highest priority by the War Cabinet.[1]

Two firms sponsored to make spray pumps were also engaged on the manufacture of internal combustion engines and were unable to spare the labour or equipment. Materials supply was also a problem: for example sheet metal for knapsack sprays, and ball bearings for the rotary dusters. Adding to the labour problem was the inexperience of farmers in using and maintaining their implements. Manufacturing firms traditionally maintained their own extension services, but this became an unusually heavy burden with the introduction of new methods and unfamiliar machinery—particularly when technical experts were diverted to act as agricultural advisers. A suggestion that War Agricultural Committees should assume this function was sensibly rejected, for committees had no more technical knowledge than farmers.[2]

For these reasons output in 1943-44 at £3,900,000 failed to reach the approved target, and the story is similar the following year even though output increased to £4,250,000.[3] Special authorisations for export which were granted to meet urgent needs of the United Kingdom and South Africa further diminished domestic supply; some compensation was received, however, in the form of an increased allocation of Lend-Lease tractors for 1944 and 1945. The position had certainly improved a little by the end of the war, but the Government's earlier declaration of agricultural machinery as a "munition of war" had by that time a hollow ring.

Manufacture of radio and signalling equipment for the Services was by no means a new activity but full development of the programme was not achieved until 1943. In the early stages there was confusion about whether certain lines of equipment should be made and whether British or American standards should be adopted. A solid core of

[1] Production Executive Agendum 19/1944.
[2] Production Executive Agendum 19/1944, Supplement 3.
[3] Productive Executive Agendum 62/1945. By contrast, the average value of production in the two pre-war years was, in 1944-45 prices, £7,600,000.

technical knowledge was available in Australia through the three leading manufacturers, Amalgamated Wireless (Australasia) Ltd, Philips Electrical Industries of Australia Pty Ltd, and Standard Telephones and Cables Pty Ltd. These three were capable of adapting to high performance manufacture in wartime, but the world-wide shortage of such materials as tungsten wire and molybdenum strip and of precision measuring equipment such as cathode ray oscilloscopes and wavemeters, retarded the production programme. The supply position had become more serious after Pearl Harbour and, moreover, overseas manufacturers were reluctant to divulge trade secrets and threaten post-war trade prospects. In September 1942, for example, the High Commissioner in London reported the results of his attempt to obtain technical details of one process: "Understand tungsten wire technique is closely guarded trade secret. All main English and American manufacturers are financially interested directly or through associates (in a consortium) which has planned manufacture after the war. Understand proposal of Broken Hill Proprietary Co. Ltd unfavourably received . . .". Further, the programme had been originally planned with the intention of using Australian transmitters and receivers alongside British equipment in North Africa and substantial design changes had been necessary to fit in with American specifications in 1941-42. Coupled with the very rapid wartime technical changes in electronics, this additional uncertainty placed the more sophisticated parts of the programme under a cloud.

Nevertheless the decision to press ahead with a fully-fledged programme had been taken in mid-1942 at a time when overseas component supply was at its lowest level and a quest for self-sufficiency appeared to be the only alternative. Local scientists had made progress in making most of the scarce materials, particularly tungsten wire, molybdenum wire and sheet, tantalum wire, fine gauge nickel tubing and a wide variety of special radio valves.[4] Organisation of production had been tidied up with the creation in July 1942 of a separate Directorate of Radio and Signal Supplies under Lieut-Colonel S. O. Jones[5] with the object of rationalising the activities of private contractors. Production of radar, radio frequency communication and non-radio-signal equipment was undertaken by the directorate, but production by the directorate was essentially a secondary function. On the basis of the scientific progress that had been made, the plan was to lift total production from an annual rate of £4,000,000 in 1942 to at least £6,000,000 in 1943.

At the beginning of 1943 a very wide range of equipment was in production and on order in three basic groups: first, radar based on British design and developed in Australia during 1942 by the Postmaster-General's Department and the Radiophysics Division of the Council for Scientific and Industrial Research, primarily shore-defence and air-

[4] For details, especially on technical matters, covering this and other projects, see Mellor, *The Role of Science and Industry*.

[5] Sir Samuel Jones. Engr Br PMG Dept 1927-39; comd AIF Signals in UK 1940-41; Dir Radio and Signal Supplies 1942-45; Tech Mgr Philips Electrical Ind of Aust 1945-50, Tech Dir 1950-61; Mang Dir Standard Telephones and Cables 1961-69. B. Frankston, Vic, 20 Aug 1905.

warning units, microwave detectors, air-to-surface-vessel equipment and searchlight control systems; second, army signalling equipment such as field telephones, switchboards, heliographs, signalling lamps, Fullerphones and microphones; and third, radio receivers and transmitters from small single-man units and walkie-talkie sets to heavy 300 to 500 watt long range transmitters and sophisticated units for aircraft communication. The range required by the Services was already large and continued to grow in 1943 and 1944. No sooner had production been proved for one instrument than substantial improvements were required; or, worse, the equipment had become obsolete. Rapid and unpredictable technological change is a familiar electronics problem, but was exaggerated in 1943 by the different specifications imposed by the three Services, sections within each Service, and by the Americans. This was in part a heritage of the pre-1942 system where each Service sought its own contractor for its own requirements; any serious subsequent attempt to standardise was stoutly resisted.

Thus, in the first half of 1943 improvement in the supply of valve-making materials, from local sources and through Lend-Lease, offered some hope that the backlog of orders for radio equipment would be overtaken. At the same time the Directorate of Radio and Signal Supplies was confronted with the new and technically difficult problem of tropic proofing. There was little previous experience of the required technique, and the cost in scientific manpower proved to be heavy. Army specifications were extremely stringent and the equipment was required, as always, in a hurry. Tropic proofing was, of course, essential for the island campaigns, and highly satisfactory methods of protection were devised.[6] But all too frequently intolerable burdens were imposed on contractors, as described in April 1944:

> A new type of Army telephone on which development commenced early last year reached the point about the middle of the year when production could commence. Tooling was almost complete and the production lines were planned. However, before production commenced, the Army decided that the telephone should be proofed against tropical conditions and it is only in the last few weeks that the tropically proofed prototype has been accepted.[7]

Towards the end of 1944 the Army discovered that thunderstorms in the tropics were more frequent than elsewhere and again specifications were altered.

During 1944 the pattern of Army orders shifted to lighter, more powerful transmitters and receivers as experience of jungle warfare showed the importance of mobility. Retooling and further investment of scientific manpower were required. Pleas for moderation went unheard and in November 1944 the Director-General of Munitions was moved to record that:

> The policy of demanding authorities is now tending rapidly and inexorably towards the use of lighter weight equipment and equipment incorporating components of

[6] Mellor, *The Role of Science and Industry*, Ch. 24.
[7] Report No. 45 of the Director-General of Munitions to War Cabinet, Apr 1944, p. 34.

much higher quality than have been available in the past, and while they have demonstrated their preparedness to give way to some extent where a compromise is essential, nevertheless their Design Directorates and Inspection Divisions are applying intense pressure . . . in every instance where there is any possibility of their policy being advanced.[8]

Orders by the United States Army Services of Supply added to the pressure; indeed the Australians and Americans entered into a form of re-equipment competition, with the Australians following closely the American quest for higher power, lower weight and, eventually, miniaturisation. Whereas American reciprocal aid requests for general munitions fell sharply in the second half of 1944, the demand for radio and signals equipment continued at a high level—reflecting shortage of components in the United States.[9] The Radio and Signals Supplies Directorate made slow progress, therefore, in meeting the backlog of orders. Output continued to rise until the end of 1944 but outstanding orders were still high in March 1945, as shown by the following figures:[1]

	Annual rate of production (£'000)	Value of equipment on order (£'000)	Number of projects in hand
Mar 1943	4,932	6,372	178
Sep 1943	5,088	7,019	185
Mar 1944	5,412	6,525	185
Sep 1944	8,443	5,987	172
Mar 1945	4,992	5,900	153
Sep 1945	3,470	5,570	136

In 1945 the directorate received large orders for radio sets for Service amenity halls, a demand which conflicted directly with the policy of relaxing control over the purchase of receivers for domestic purposes.

The prolonged manpower commitment in the Directorate of Radio and Signal Supplies was due in part to the persistent problem of materials supply and the very necessary re-equipment programme of 1943; but also to the inordinate demands of the Services for the very latest and best at a late stage of the war. The Manpower Directorate exercised some restraining influence in 1944-45, but the special circumstances of radio and signals supply in 1943 effectively shielded the directorate from the manpower axe.

The Americans were heavily involved in the rapid growth in 1943 and 1944 of small marine craft construction. Soon after the main American force arrived, demands had been received for a wide variety of landing craft, maintenance craft, harbour and coastal patrol vessels, barges, tugs, floating wharves and docks. Some of the requirement was

[8] Report No. 53 of the Director-General of Munitions to War Cabinet, Dec 1944, pp. 17-18.

[9] A breakdown of orders by originating authorities is not available on a continuous basis, but in Sep 1943 outstanding orders were held in the following proportions: R.A.N. 5 per cent, Australian Army 36 per cent, R.A.A.F. 25 per cent, United States forces 26 per cent, others (mainly Eastern Group Supply Council and New Zealand) 8 per cent.

[1] From monthly reports of the Director-General of Munitions.

met by requisitioned local craft, but these were of limited value because of lack of standardisation, small average size and lack of power. As preparations for the Pacific offensive gathered momentum, requirements extended in range and increased in amount, for there were few deep-water harbours in forward areas and the prevalence of reefs restricted the use of large ocean vessels.

As recorded in an earlier chapter the construction programme in 1942 had been entrusted to the Australian Shipbuilding Board.[2] It was agreed with the Americans that the Board would arrange for the construction of hulls and undertake final assembly while the Americans would provide marine engines under Lend-Lease (supplemented as required by Australian production). The arrangement proved to be abortive from the outset as the Board was in no position to extend further its range of activities. The evacuation from Malaya, Java and Guadalcanal had imposed a heavy strain on shipyards, materials and skilled labour for repair work; the large shipbuilding programme was also taxing. Capacity for construction of small craft was limited and scattered widely along the east coast of the mainland and in Tasmania. The task of co-ordinating these small yards and preparing standard designs made very slow progress. Further, the marine engines promised by the Americans did not arrive for, according to the official explanation, all supplies available in the United States were required for European, African and Mediterranean theatres.[3] By October 1943, when the programme was reorganised and placed under the control of the Director-General of Munitions, only 3,619 craft out of an original order of 8,876 (7,839 for United States forces) had been delivered.

The Directorate of Small Craft Construction, which gathered together the fragments of the programme, was itself a composite creation. The Director, F. T. Merrett,[4] had been chief technical assistant to Essington Lewis and had experience in the factory equipment section of the Directorate of Machine Tools and Gauges. As the task of equipping factories was virtually complete, the opportunity was taken to merge this section with Small Craft to form a general purpose organisation.[5] Recruitment of experienced engineers was, as always, a difficult task, but Merrett was fortunate in being able to obtain men from the tank programme when the Armoured Fighting Vehicle Directorate was disbanded. Tanks provided, as well, the basic organisation for the Sydney section of Small Craft Construction; the other main branch was in Melbourne.

As with radio and signal equipment, tanks and a range of ordnance, design changes proved to be a continual source of frustration and delay. Design approval was the responsibility of a design panel of the Small

[2] War Cabinet Minute 2390, 21 Sep 1942.

[3] The United States also agreed to supply propeller shafts, propellers, anchors, chain cables, navigation instruments and other items, but these did not arrive except in "negligible quantities".

[4] F. T. Merrett. Chief Eng, Aust Iron and Steel Ltd from 1923; Chief Tech Asst to Dir-Gen of Munitions 1940-45; Dir of Small Craft Construction 1943-45; Dep Chmn Secondary Industries Commn 1944. B. Auburn, Vic, 13 Nov 1890. Died 1 Mar 1950.

[5] Late in 1944 the directorate assumed responsibility for production of railway equipment (with the exception of the Garratt locomotive) for the Eastern Group Supply Council.

Marine Craft Sub-Committee of the Defence Committee,[6] but standardisation of designs for the three Services and the United States proved to be an impossible task. For example, the United States authorities required extensive changes to the 120-foot ocean-going lighter. They disliked the twin rudder arrangement and the steering. When a single rudder was substituted performance was not improved until special fins were fitted underneath the stern. The exhaust was diverted from the funnel through cabins which then became too hot. The 75-foot tug turned out to be a different vessel from the one designed by the Australian Shipbuilding Board because the Americans argued that the original tug was unstable. The 66-foot trawler was similarly redesigned to install fore and aft rather than diagonal planking. Undoubtedly some of the changes were necessary; a few reflected plain errors by the Design Office; but to Australian eyes the changes insisted on by American inspectors rarely improved performance and most were a matter of individual preference.

Specification changes were by no means the sole province of the Americans. A wrangle between the R.A.N. and the R.A.A.F. on the one side and the Army on the other over the electrical equipment to be installed in 45-foot and 66-foot vessels illustrated the absurd lengths to which a trivial matter could be pushed, and the cost in time and manpower. The Australian Shipbuilding Board had been working on uniform design for electrical installations and these had been accepted by the Americans, although not by the Australian Services who requested changes. The matter was allowed to slide because the Americans received first priority in production. In the meantime the R.A.N. and R.A.A.F. had let contracts direct to boatbuilders, so that production proceeded while an attempt was made to establish common electrical specifications. A meeting in June 1944 failed to resolve the issue. The R.A.N. and R.A.A.F. insisted on 24-volt equipment (standard for them since before the war), while the Army was equally determined to have 32-volt for the Hercules engines fitted to its vessels. The meeting failed to resolve this issue—and another concerned with the choice of a suitable auxiliary power unit—and the two sides went their separate ways. At this distance it is difficult to judge the dispute, but there was clearly no interest in compromise for the sake of economy.

A further familiar complication was the intense competition for skilled labour and materials at the time the construction programme was gathering momentum. Coachwood-ply and maple were in short supply because of aircraft production requirements. Shipwrights, boilermakers and welders were scarce because of the higher priority of ship repair. The registration of carpenters as shipwrights under the Shipwright Trade Dilution Regulations alleviated the position to some degree, but boilermakers resisted dilution. In an effort to dodge the skilled labour and job demarcation problem, large orders were placed for certain craft with

[6] Established by Defence Committee Minute, 7 May 1943, to co-ordinate the small craft requirements of the three Australian Services, the U.S.A.S.O.S., the Central Cargo Control Committee and the Allied Works Council.

large manufacturing companies such as General Motors-Holden's and Ford Motor Company. This resulted in a marked acceleration in output of completed craft, components and spare parts. At the Ford Manufacturing Co., Geelong and Brisbane, welding was reduced from a skilled to a practically unskilled trade, and it was found possible to use women for some operations. The only real difficulty was that motor-body builders were paid at lower rates than shipwrights, and to prevent an industrial dispute the Minister for Munitions agreed late in 1944 to place no further orders with General Motors-Holden's. But orders in hand were more than sufficient to meet wartime needs.[7]

From the outset the story of marine engine installation was an unhappy one of uncertain supply and production failure. As noted earlier, promised American supplies were not forthcoming in 1943, and attention turned to Australian sources. Attempts were made to adapt automobile engines, but installation was difficult and performance indifferent. A wide variety of auxiliary power units were manufactured and used on light vessels. The heavy Ruston and Hornsby diesel engine was manufactured by Charles Ruwolt Pty Ltd and the Ordnance factory at Maribyrnong, for the 300-ton wooden cargo vessel, although the first two deliveries were not made until January 1945. However, the most significant development was intended to be the manufacture of 500 Gray marine diesel engines. The decision was taken at a time when there appeared to be no hope for deliveries from the United States.[8] Diesel was preferred to petrol because of the lower fire risk and the contract was awarded to General Motors-Holden's because the parent company controlled production of the Gray in the United States and the Australian firm had produced satisfactorily the Gypsy Major aircraft engine. The order was placed in July 1943; by the end of June 1945 nearly £300,000 had been spent but there had been no deliveries. Technical difficulties covered the full range —hardening crankshafts, casting the cylinder head and block, liners and pistons, thinning piston rings, etc. Small Craft Construction decided, eventually, to complete 500 incorporating parts from the diesel developed for the tank, but delivery did not take place until after the end of the war. Fortunately American engines arrived in modest quantities in 1944, but engine supply was so tight that a comprehensive system of pooling was found necessary. The decision to build the Gray was fully justified in view of the vagaries of Lend-Lease and the proven capacity of General Motors-Holden's. But in familiar fashion the project was allowed to drift on well after the real need for it had passed.

Particular failure should not disguise, however, the positive achievement of small craft construction. The achievement was, simply, that the formidable problems of labour and materials were overcome by a combination of persistence and improvisation. New vessels were designed

[7] A number of other important annexes were switched to small craft construction in 1944, including Charles Ruwolt Pty Ltd (originally 25-pounder), Coote and Jorgensen Pty Ltd (originally drive units for tanks), Sonnerdale Pty Ltd (originally gears for tanks), and Slazengers (Aust.) Pty Ltd (originally for barges and then specifically for small craft).

[8] War Cabinet Minute 2798, 30 Apr 1943. £1,000,000 was authorised for the project.

and built, ranging from the 120-foot ocean-going lighter and the 75-foot steel diesel tug to 60-foot flat top barges, 27-foot powered surf boats and a wide range of assorted dinghys and pontoons. American requirements in the Pacific were supplied mainly by Australia; in terms of number about three-quarters of production was in response to United States orders. By December 1945, 34,191 vessels had been launched, mainly in 1944 and the first half of 1945. Many of these were of course of simple design and construction, and included 21,300 steel pontoons. But the manpower cost was high. Rough estimates indicate that male employment rose from about 18,000 in March 1943 to over 20,000 in mid-1944, and there were still 12,000 employed on V-J Day. By 1944 Small Craft Construction was the most expensive directorate in terms of labour and, with Radio and Signal Supplies and Aircraft Production, a major cause of continued manpower shortage.

AIRCRAFT PRODUCTION

An inevitable fact of modern warfare is that the sophisticated weaponry developed for one conflict has usually more military relevance for the next one. This is particularly true of aircraft, and is true also of Australia's attempt to achieve self-sufficiency in aircraft production in the last two and a half years of the war.

At the beginning of 1943 the Government initiated a search for the third generation of military aircraft for construction in Australia. The first generation—the Wirraway, Wackett Trainer and Tiger Moth—had performed invaluable service in training pilots and air crew but had not equipped the R.A.A.F. with a locally-made strike force. The second generation—the Beaufort, Beaufighter and Boomerang—made some progress towards meeting the keenly felt need for Australian-made bombers and fighters in 1942 and 1943. But the Beaufort, despite its qualities, lacked the range and carrying capacity required by the R.A.A.F.; the Beaufighter would not come into production until the end of 1943 and in any case was a heavy fighter-bomber unsuitable for interception of the Japanese Zero; the Boomerang was already obsolete by 1943. An aircraft production mission was appointed in December 1942 under the leadership of Daniel McVey, Secretary of the Department of Aircraft Production,[9] to select aircraft of proven overseas design for local manufacture and to recommend the most suitable types of low and high altitude fighter aircraft and a long-range heavy bomber. The intention was to increase as far as possible self-sufficiency in the production of high-performance aircraft and to upgrade the R.A.A.F.'s strike capacity. Both types of aircraft were to be in production in time to contribute to the latter part of the war.

After extensive examination of design development in the United States and the United Kingdom, the mission preferred the high altitude

[9] Other members of the mission were Group Captain W. S. Armstrong and Wing Commander J. P. Ryland (both R.A.A.F.), L. J. Wackett (Manager, Commonwealth Aircraft Corporation), and D. E. Callinan (of the Beaufort Division, Department of Aircraft Production).

fighter Mustang P-51-D fitted with Rolls Royce Merlin 61 engines to the Spitfire Mark VIII. Although the Spitfire was slightly superior in climb and manoeuvrability, the Mustang had the edge in speed and dive. The decisive factor was, however, that the Mustang was a new aircraft capable of extensive design development whereas the Spitfire was near the end of its life in this sense. Of British design manufactured by North American Aviation Incorporated (California), the Mustang was regarded as clearly superior to the Zero and the War Cabinet had no hesitation in accepting the mission's recommendation.[1] An initial order for 350 aircraft was placed with Commonwealth Aircraft Corporation Pty Ltd to equip one operational training unit and six squadrons by October 1945. Merlin engines were to be imported, however, for the time involved in developing capacity for the production of engines of this class would have added a year or more to the delivery schedule. Any dependence on overseas supply rankled, but Sir Stafford Cripps, Minister of Aircraft Production in the United Kingdom, had assured the mission that Australia would receive high priority in Merlin allocation.[2]

Before the mission left Australia the Air Board impressed on its members that the greatest need was for a heavy bomber capable of deep seaward reconnaissance which could be produced at an early date. The Beaufort programme had been extended in January 1943 to a total of 700 mainly to keep manufacturing capacity intact, but production of this number would exceed R.A.A.F. requirements. The mission's two heavy bomber candidates were the Liberator and the Lancaster. With a range in excess of 2,000 miles carrying a heavy load of bombs and capable of further development, the Lancaster was the mission's clear choice. But engine supply was again a problem. The Lancaster manufactured in Britain by A. V. Roe and Company was fitted with Merlin engines of higher capability than the 61 Series and local delivery certainly could not be arranged by early 1945, the required date for completion of the first Australian Lancaster. But the Air Board had set its heart on complete independence from overseas supply, more so than in the case of the Mustang. The mission therefore suggested modification of the Lancaster for the use of Pratt and Whitney 2800 Series engines which were within the manufacturing capacity of Commonwealth Aircraft Corporation at Fishermen's Bend, Victoria.[3]

Reaching a firm decision on the Lancaster proved to be a protracted process, and involved an important issue of aircraft production policy. Hitherto Australia had devoted its limited capacity to light and medium aircraft. This had enabled economy to be achieved in the use of tools and jigs and also in the use of scientific manpower for the development of

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[1] War Cabinet Minute 2777, 15 Apr 1943.

[2] The mission was unable to recommend a low altitude fighter for Australian construction, for the three possibilities—the Tempest II, Curtis P-60 and C.A.C. CA-15—were in the prototype stage and did not qualify as being of proven design and capability.

[3] The 1830 engines were being manufactured at the time by Commonwealth Aircraft Corporation and only a moderate amount of retooling was required for the 2800 Series. Thus, even though Sir Stafford Cripps subsequently offered an adequate supply of Merlin engines, the decision in mid-1943 was to press ahead with local production of the Pratt and Whitney 2800 Series.

airframe and engine construction. Location of light aircraft construction in the South-West Pacific with service and repair facilities had helped to achieve a degree of regional specialisation, and had conserved shipping space. But the production of a heavy bomber fell outside these principles. With its enormous requirement in man-hours, Australia could not hope to achieve economies of scale or make full use of the heavy investment in tools and jigs. Further, large aircraft could be flown direct from the United States or the United Kingdom. General MacArthur made good sense, therefore, in opposing the project:

> My opinion concerning the manufacture in Australia of large aircraft which could readily be flown to the South-West Pacific Area . . . [is] that concentration on the manufacture of small aircraft . . . can make a more timely and valuable contribution towards successful completion of the war than could the manufacture of a much smaller number of larger aircraft which could be procured from the United Kingdom or the United States where they are being manufactured at a tremendous saving in man hours over any possible programme here.[4]

MacArthur's objection was largely negated by the strong support received for the project from the United Kingdom. The British Ministry of Aircraft Production promised every assistance in creating capacity and even offered a gift of one Lancaster on condition that the project went ahead, for Australia was seen as an important service and repair base for Royal Air Force heavy aircraft in the final stage of the war. Torn between British and American interests, and oversensitive to the extreme advocacy of the Ministers for Air and Aircraft Production about the value of maintaining the full range of productive capacity for post-war purposes, the War Cabinet compromised in a way that side-stepped the basic issue. Instead of a programme for 100 Lancasters as originally proposed, the construction of 50 was approved (to be completed by September 1946).[5] The programme would merely establish manufacturing capacity. With the decision delayed until November 1943, the Australian Lancaster could not have any effect on the outcome of the war even on the most pessimistic forecast of its length. As the Prime Minister explained to the Advisory War Council, the post-war future of the aircraft industry was the determining factor.[6] But no consideration had been given to the economic possibilities of heavy aircraft production after the war, or whether scarce resources could have been devoted more profitably to specialisation on light aircraft production. The Government merely swallowed both the Air Board's mystical notion of "operational autonomy" and the Department of Aircraft Production's insistence that *all* productive capacity had to be kept intact after the war irrespective of economic or military requirements.

The Lancaster decision was followed by acceptance of a proposal to build Rolls Royce Merlin engines at Lidcombe, New South Wales. Aircraft Production's argument was in substance identical: the twin-row

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[4] War Cabinet Agendum 284/1943, Supplement 1, 22 Oct.
[5] War Cabinet Minute 3156, 11 Nov 1943.
[6] Advisory War Council Minute, 11 Nov 1943.

Wasp programme at Fishermen's Bend and Lidcombe would probably be completed by the end of 1944, and unless additional orders were placed forthwith skilled staff would be lost to the industry and the great effort in building engine manufacturing capacity and a measure of national self-sufficiency would be dissipated. Further, the Mustang, Lancaster and Mosquito, the basis of production for 1944 onwards, were designed for use with the Merlin. The proposal, as accepted by the War Cabinet in November 1943, was to convert progressively the Lidcombe factory to Merlin engine production, beginning with spare parts and then to complete engines by the end of 1945—an optimistic forecast in view of unfamiliarity with the in-line liquid-cooled Merlin as opposed to the air-cooled radial Wasp. Manufacture of the Wasp was to be concentrated at Fishermen's Bend for remaining requirements and replacement parts. The War Cabinet's support was conditional on the project not interfering with the release of 20,000 men from the Munitions-Aircraft bloc, a condition which subsequently was to prove an embarrassment.[7]

Maintenance of the work force and manufacturing capacity of the aircraft industry for post-war purposes remained the dominant theme of policy for the rest of the war. The claims of Aircraft Production were treated far more tenderly than similar submissions by Munitions. Certainly the industry had the makings of a good case. It was frequently stressed that skilled workers were more difficult to assemble and train than for most types of munitions, and that the time taken to establish capacity was longer. But the argument was presented indiscriminately: the Department of Aircraft Production's extreme nationalism was not re-examined in the light of changing circumstances, and the manpower cost was usually disregarded. Thus the Boomerang programme was extended in September 1943 merely to retain labour for the Mustang project which was still tooling.[8] The 50 additional Boomerangs were not needed as was fully accepted at the time and most were added to the stockpile. Similarly, the Beaufighter order was increased by 100 in September 1944 in the expectation that the current programme would be completed before the Department's Beaufort Division was ready for the Lancaster.[9] And then in December 1944 the War Cabinet was persuaded to press ahead with the development of the C.A.15 interceptor fighter.[1] In this instance the case was stronger. The prototype of the C.A.15 designed by Commonwealth Aircraft Corporation and the Council for Scientific and Industrial Research, Division of Aeronautics, had shown distinct promise and was the type of aircraft that the country could conceivably produce itself or license for overseas production after the war. At the end of 1944 only 65 men were employed on the project.[2]

The expansion of production in 1943 and 1944 imposed heavy new demands on a large number of specialist annexes and sub-contractors.

[7] War Cabinet Minute 3178, 24 Nov 1943; Agendum 459/1943.
[8] War Cabinet Minute 3018, 6 Sep 1943; Agendum 328/1943.
[9] War Cabinet Minute 3793, 18 Sep 1944; Agendum 187/1944, Supplement 1.
[1] War Cabinet Minute 3925, 7 Dec 1944; Agendum 544/1944.

One of the most important was the propeller annexe operated by De Havilland Aircraft Pty Ltd at Alexandria, New South Wales. Built originally to meet the needs of the Wirraway and the Beaufort, the annexe was extended by the addition of a new factory in 1943 to produce the full-feathered type of propeller to Hamilton Standard design. Delay in the delivery of Lend-Lease machine tools retarded production, but in 1944 output was more than adequate to meet the requirements of new aircraft and replacements. New propellers were also built in 1944-45 for the Mosquito and Mustang of metal and wood construction; the local experimentation with wood met with limited success, however. Through 1943 and 1944 the annexe employed about 1,000 men and women.

AIRCRAFT PRODUCTION, 1941-42 to 1944-45

	1941-42	1942-43	1943-44	1944-45	Total 1939 to 31 Aug 1945	Number Ordered
AIRCRAFT						
Beaufort	76	285	312	27	700	700
Beaufighter			3	281	329	450
Lancaster-Lincoln						61
Lancaster-Tudor						12
Wirraway	320		30	60	717	870
Wackett Trainer	187				200	200
Boomerang		105	102	43	250	250
Mustang				4	18	350
Tiger Moth	508	66		35	1070	1070
DH.84 Dragon		87			87	87
Mosquito			6	82	115	370
ENGINES						
Twin Row Wasp	74	223	343	228	870	870
Single Row Wasp	152	85	32		680	680
Gypsy Major	315	460	230		1300	1300
Merlin						100

Note: Excludes 2 C.A.C. Bombers and 8 gliders.
Source: Departmental history of Aircraft Production.

Similarly, expansion was necessary at the hydraulic landing gear annexe operated by National Motor Springs Pty Ltd at Alexandria, which used improvised machine tools for most of the war and developed capacity towards the end of 1942 for the manufacture of retractable landing gear. Shortage of gun turrets and armaments from overseas led to the construction of a gun turret annexe at Fairfield, Victoria. Built initially to arm the Beaufort, production switched in 1944 to mountings, bomb and torpedo release equipment, selector valves and a wider range of other attachments for the Beaufighter. At the end of the war the annexe had in hand production of Boulton and Paul turrets, undercarriage support beams and hydraulic components for the Lancaster. Airframe components

[2] Production of the Wackett C.A.11 bomber, which had shown much less potential, was abandoned in Sep 1944.

were pressed by General Motors-Holden's, Woodville, South Australia, and by Richards Industries Ltd, Mile End, South Australia. Instrument manufacture was undertaken by Amalgamated Wireless (Australasia) Ltd, Sydney, while instrument maintenance was largely the responsibility of a special annexe established for the government by Australian National Airways Ltd, Victoria. To complete the picture mention should also be made of the aero-electrics annexe of Technico Ltd, Marrickville, New South Wales, for production of engine accessory equipment such as starters, generators, ignition harness and ignition switches; and the heavy forge annexe established beside the works of the Australian Aluminium Company, Granville, New South Wales, for the production of heavy forgings for propeller blades and hubs, and engine crankcases.

Superimposed on the work of aircraft construction was in many ways the more important task of service and repair for the R.A.A.F. and the United States Army Air Force. Before Pearl Harbour a policy had been adopted of using the available facilities of civil aviation companies on a decentralised basis, but with the outbreak of the Pacific war and the arrival of the U.S.A.A.F. in February 1942 these were inadequate. During 1942 capacity had been extended rapidly in three categories: by the construction of new hangars for airframe repair; by the establishment of special engine overhaul workshops; and by equipping general machine shops. For security reasons the original intention was to locate repair centres in country areas as well as in the main coastal cities, but this had been abandoned in 1942 in order to make effective use of scarce tools and skilled labour. Consequently, repair and overhaul capacity was concentrated in Brisbane, Sydney and Melbourne, with support from Adelaide and Perth.

The volume of work for the Americans grew so rapidly in 1943 that special capacity was created. Additions were made to the Lidcombe factory to service Pratt and Whitney engines; airframe unit and engine overhaul facilities were established at Archerfield, Queensland; special plant and equipment was installed by General Motors-Holden's, Brisbane, for overhaul of the Allison engine; and the munitions factory at Rocklea, Queensland, was converted for general engine overhaul at the end of 1942, as noted earlier. The Rocklea conversion was the largest undertaking on behalf of the Americans in the aircraft maintenance field. General Motors-Holden's and Ford combined to transform the small arms ammunition factory in a manner suitable for engine overhaul, and a special test centre was built outside the metropolitan area. The large number of workers moved into the area made necessary the construction of special hostels and canteen facilities, and a bus service was provided by the Maintenance Division of the Department of Aircraft Production.

The Americans as usual grossly overstated their requirements. In June 1943 the U.S.A.A.F. estimated that it would require capacity for the service of 1,950 engines per month by early 1944. The figure was sufficiently divorced from reality for the War Cabinet to reduce it by two-

thirds: planned capacity was to be built up steadily to 715 engines per month by June 1944.[3] Even this reduced figure, which was not fully attained, proved to be more than adequate. In March 1945, when the War Cabinet received an overdue report on the total value of service supplied as reciprocal aid to the United States,[4] demands received amounted to £11,339,000 of which £4,100,000 had been provided. Most of the difference was cancelled as no longer needed. Nevertheless, the Americans were largely responsible for the very heavy labour commitment in aircraft maintenance. From a figure of 900 at the beginning of 1942, employment reached a peak of 12,080 in May 1944. With the withdrawal of the Americans from mid-1944, employment fell rapidly and was down to 5,245 in February 1945, most now covering the service of R.A.A.F. aircraft.

In total the aircraft industry continued to absorb resources until June 1944 when it employed more labour than munitions production. Indeed, as Munitions released men those of any quality were snapped up by Aircraft Production. There was only slow contraction of the industry in 1944-45; labour was released by those supplying spare parts, and engaged in production under the Maintenance Division; but the main production sections generally retained the greater part of their labour.

EMPLOYMENT IN AIRCRAFT PRODUCTION AND SERVICE, 1942-45

	Total employment	As per cent of Munitions-Aircraft bloc employment
June 1942	26,820	—
June 1943	39,564	34.8
June 1944	44,102	51.0
June 1945	31,318	54.3

Note: Excludes employment by sub-contractors, and employment in shipbuilding and small craft construction.

In terms of adding to the local source of air power for World War II, the dividends from the third generation programme were modest. Delivery of the first Mustang, planned for the end of 1944, was delayed until May 1945; by 31st August 1945 only 18 had been delivered out of a total order for 350. No Lancaster had been delivered by the end of the war, although in fairness it should be added (as noted earlier) that this aircraft was ordered primarily for post-war purposes. Indeed, the Lancaster had undergone significant design modifications and the Australian version of the bomber (like the British) was renamed Lincoln. A military transport version had also been developed with the name of Tudor. With the development of the Tudor the Department of Aircraft Production had its mind fixed on the potentialities of post-war civil aviation. In

[3] War Cabinet Agendum 216/1943 and Supplement 1.
[4] War Cabinet Agendum 108/1945.

March 1945 an attempt was made to persuade War Cabinet to increase the order for the Lincoln from 50 to 100 and to place an order for 24 Tudors for delivery during 1947, a submission which drew the reprimand that "proposals should be related to the planning of the war against Japan".[5] In July the War Cabinet accepted a modified proposal to increase the order for Lincolns to 61 and to place an order for 12 Tudors so as to maintain nucleus capacity for post-war defence.[6] A simultaneous proposal to build 6 Tudor Mark II for use by Qantas on the Sydney-London service was deferred.[7] The first Lincoln was flown in March 1946.

Production of the Mosquito was subject to much more serious delay, and in the end made little contribution to the wartime strength of the R.A.A.F. The Mosquito was a highly versatile long-range day fighter, which could be used as a single- or two-seater bomber, fighter, pathfinder, photographic reconaissance machine and as a transport. The order was placed in September 1942 with De Havilland to follow the Tiger Moth programme which had been terminated. The size of the order was changed frequently, but in March 1943 the Department of Air advised that it required delivery of 50 by December 1943, a production rate rising to 35 per month by September 1944 and a cumulative total of 720 by October 1945. De Havilland advised at the time that it would have no difficulty in meeting this ambitious schedule.

The production story was an unhappy combination of over-optimism, delays in the delivery of Lend-Lease tools and jigs, shortage of materials and skilled labour, unexpected technical difficulties and poor management. The airframe was of wooden construction and apparently simple design—the only one of its type built during the war—and this encouraged De Havilland to believe that there would be few technical difficulties,[8] an assessment which proved to be wide of the mark. A complete set of machine tools was not assembled until well into 1943, a consignment of jigs for the main fuselage having been lost at sea at the end of 1942. Initially the Mosquito had a comparatively low priority and the best labour was directed to other projects, which made necessary a long period of training of semi-skilled workers. Construction of the wooden frame of Australian coachwood-ply of indifferent quality proved to be an exacting and labour intensive task, and the supply of woodworkers was inadequate. Exceptional difficulty was experienced in the manufacture of wings by General Motors-Holden's at Pagewood, New South Wales; a large proportion of the first batch was found to be defective. The first Australian-made Mosquito was flown in July 1943, but extensive modifications were necessary and the first delivery to the R.A.A.F. was not made until March 1944. But production was restricted in the early months to two or three per month. In August 1944 De

[5] War Cabinet Minute 4110, 20 Mar 1945.
[6] War Cabinet Minute 4301, 11 Jul 1945; Agendum 481/1945.
[7] War Cabinet Minute 4302, 11 Jul 1945.
[8] For details see Mellor, *The Role of Science and Industry*, pp. 414-19.

Havilland lodged a claim for 700 additional workers to step-up production, a claim which sprang from inefficiency on the shop floor at Bankstown rather than from serious labour shortage. Examination by the Department of Aircraft Production yielded the verdict that there was no possibility of De Havilland usefully absorbing additional men (except for a small number with special qualifications), and that what was required was a factory reorganisation to use existing labour effectively.[9]

Production improved slowly thereafter, but for 1944-45 averaged a mere seven aircraft per month of which first deliveries continued to be of uncertain airworthiness. Thus, the fighter re-equipment programme based on the Mosquito and Mustang was attained to a limited degree only, before the end of the war. By July 1945 Air Board's requirements had, fortunately, been scaled down from an original 720 to a firm order for 370,[1] of which 115 had been delivered by the end of August 1945 (more than half in the months of July and August).

In short, the lofty notions of self-sufficiency for the R.A.A.F. came to very little, and in 1945 American aircraft were supplied in quantity to meet Australian operational requirements. The most successful part of the production programme continued to be the Beaufort-Beaufighter project. The Beaufort was phased out gradually in 1944 and the Beaufighter phased in without delay, for the specifications of the two aircraft were close and tools, jigs and labour were interchangeable. Full production was achieved rapidly after August 1944 when the Beaufort Division was devoted exclusively to the Beaufighter. By the end of August 1945 329 Beaufighter aircraft had been delivered out of an order for 450. But the situation was overtaken by the abrupt end to the war: after its initial delays the Mustang project on V-J Day was in full swing; the Mosquito project showed signs that its major difficulties had been overcome. The Lancaster-Lincoln undertaking, however, remained a monument to extravagant ambition and a piecemeal approach to production policy. Even in 1945 a moment's reflection should have indicated that Australia could not hope to compete in price or quality with the large international civil aircraft manufacturers.

Despite the efforts of the Departments of Air and Aircraft Production to retain a substantial industry after the war, and the heavy investment in manpower, the War Cabinet's emphasis in November 1945 was on the winding up of projects. No more than lip service was paid to the principle of nucleus production. The decisions were:

1. Lincoln and Tudor. Complete orders for 61 and 12 respectively, but limit production to 3 per month. Production of Merlin engines to continue until order for 100 completed.
2. Beaufighter. Terminate on completion of 364 [which meant almost immediately].
3. Mustang. Continue at the current rate until 250 completed (about April 1946), then one per week. Project to terminate about October 1949.

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[9] War Cabinet Agendum 272/1944 and Supplement 1.
[1] War Cabinet Minute 2961, 9 Jul 1943; Agendum 215/1943 and Supplement 1.

4. Mosquito. Reduce order from 370 to 209, production to proceed on a reduced basis until January 1947.
5. Wirraway. Terminate on completion of the remaining 35 on order.[2]

In November 1946 the Department of Aircraft Production was absorbed by Munitions, separate identity being restricted to the establishment of a Board of Aircraft Factory Administration. At its last meeting in January 1946 the War Cabinet declared:

It is of paramount importance that any arrangements made with inter-governmental agreement for the participation of overseas interests in Australian aircraft production should not restrict in any way the Commonwealth's control of production resources established within Australia nor should any such arrangement be construed directly or indirectly as a commitment which qualified the sovereign control by the Australian Government of its defence and external affairs policies.[3]

The words were the industry's requiem.

DISMANTLING THE ARSENAL

As we have seen, the adoption in December 1943 of the August review of munitions production did not lead to an early contraction of programmes. The review was of Australian Service requirements only; no allowance had been made for the rapidly escalating demands of the United States forces. Nor was there any attempt to integrate Australian and American requirements in a way that would have made meaningful the attempt of October 1943 to rationalise resource allocation. As recounted in the previous chapter, the omission, coupled with the willingness of the Department of Munitions to accede to excessive American requisitions, largely negated the attempt to redress the manpower imbalance. Contributing also was acceptance by War Cabinet of the system of "offsets" against scheduled manpower releases from the Munitions bloc, so that by June 1944 about 9,000 men had in fact been released against the planned target of 20,000.

The confusion over the determination of munitions production policy in 1943 did, however, lead to the creation of more effective machinery to relate actual Australian Service requirements to production programmes. Much of the over-expansion and subsequent lethargy towards elimination of the surplus had been due to the failure of the producer and consumer to communicate constructively. The blanket order on Munitions in 1942 to produce more of everything as rapidly as possible was understandable and indeed justified, but the procrastination of both the Defence Committee and the Department of Munitions in 1943 was difficult to excuse. Preparation of the comprehensive August review and the Department of Munitions report on the mechanics were merely the first steps in the achievement of adequate control and information. Thus, in November 1943 the War Cabinet redefined the Defence Committee's responsibility for the determination of the Munitions programme which had the effect of placing the committee in control of Service requirements

[2] War Cabinet Minute 4551, 13 Nov 1945; Agendum 500/1945.
[3] War Cabinet Minute 4621, 19 Jan 1946.

and the production programme, with alterations in requirements—to be notified at least every six months—translated directly into altered production schedules. Detailed requirements were to be prepared by each Service, but the Defence Committee was to ensure that each statement represented actual requirements and was accompanied by full details of the basis of provisioning. Further, requirements in excess of current programmes were to be shown; orders placed were to be limited strictly to the quantities required at the date of ordering; and orders in excess of requirements were to be cancelled promptly.[4] The Defence Committee's power was of course subject to the ultimate authority of the War Cabinet, while the War Commitments Committee was to examine the manpower implications of all revisions. But the new rules provided scope for more effective integration of production and consumption.

Standardisation of procedure led to the preparation of regular six-monthly reviews in February and August until the end of the war, the first of which was for February 1944. The cost of regularity was that the reviews were necessarily based on obsolete assumptions about the Order of Battle. Thus the first review was based on the Order of Battle as at August 1943 and no account was taken of the 20,000 men reduction ordered in October. But the benefits outweighed the costs, because the full details of planned requirements, current stock and expected surpluses that were provided on the basis of twelve months forward planning made possible more detailed control of production than had been the case previously. In February 1944 it was revealed, for example, that very heavy stocks of most ammunition items were held and that stocks would still be high in a year's time. In particular, many types of cartridges were in gross oversupply. A few estimates of stocks that would be held on 31st January 1945 were:[5]

Cartridges, 18-pounder	757,000
Cartridges, 2-pounder armour piercing	682,000
Cartridges, Polsten	6,500,000
Cartridges, Small Arms .303	10,000,000
Tracer .303	3,900,000
Ball .450	24,000,000
Grenades	395,000

In addition, smaller quantities of rifles, Bren gun magazines, optical munitions and small electrical appliances would be held. Additional requirements were mainly in the category of spare parts for weapons, especially for the 3.7-inch anti-aircraft, the 25-pounder, 2-inch mortar, and the MG Besa 7.92 mm and for small arms. A few ammunition components were required in large additional quantities, especially 40 mm shell, 155 mm shell and 17-pounder cartridges; but the only notable listing for additional artillery equipment was for 209 25-pounder units.

With the adoption of the routine procedure for the review of the munitions programme, Munitions ceased to be a subject of detailed

[4] War Cabinet Minute 3119, 3 Nov 1943.
[5] War Cabinet Agendum 34/1943, Supplement 2.

scrutiny by the War Cabinet. Even the important questions of the disposal of government factories, maintenance of nucleus production, and the future of industrial decentralisation received scant attention at the highest level. Departmental officials were left to work out details for themselves on an *ad hoc* basis. The characters of the two departments also changed during 1944: the will for survival, such a prominent feature of 1943 and of the submissions of the Department of Aircraft Production, appears to have lost strength. A number of the prominent entrepreneurs who had been instrumental in the growth of 1942 had left for greener pastures and had been replaced by professional administrators. L. J. Hartnett, Director of Ordnance Production, spent more time with General Motors-Holden's as Managing Director, a job he held concurrently with his Munitions appointment; H. V. Mirls,[6] Director of Gun Ammunition, resigned at the end of 1943 to accept a post with Australian Consolidated Industries Ltd; the Director-General of Munitions and of Aircraft Production, Essington Lewis, remained until 1945 but was not interested in the task of presiding over a diminishing empire and gave more of his energy to Aircraft Production. There were claims, too, that morale was low in factories and workers were preoccupied with finding alternative jobs.

REDUCTION IN MUNITIONS EMPLOYMENT, 1943-45

	Peak month 1943	Peak Employment			Employment Jun 1945			Decrease per cent
		Men	Women	Total	Men	Women	Total	
New South Wales	Sep	9,543	7,884	17,427	4,509	2,372	6,881	60.5
Victoria	Apr	15,681	8,846	24,527	8,052	2,967	11,019	55.1
Queensland	May	1,133	1,665	2,798	50	9	59	97.9
South Australia	Apr	6,947	5,086	12,033	2,646	1,706	4,352	63.8
Western Australia	Oct	875	1,335	2,210	737	585	1,322	40.2
Tasmania	Dec.	511	676	1,187	93	17	110	90.7
Total	Apr-Dec	34,690	25,492	60,182	16,087	7,656	23,743	60.6

Note: Excludes employment by contractors and sub-contractors and small craft construction. The heavy reduction in Queensland was due to the transfer of the Rocklea small arms factory to the Department of Aircraft Production.

Nevertheless, contraction was comparatively slow in 1944. Production for the Americans continued at a high level during the first half of the year, and then for economic reasons was allowed to continue until semi-finished components were utilised. An additional complication was the uncertainty about post-war policy. The general assumption was that nucleus capacity should be retained, and that the nucleus should be restricted to government factories. The size of the nucleus depended, however, on the projected level of post-war defence forces, and in 1944 such questions could not be answered. Therefore employment fell in a

[6] H. V. Mirls. Aust Consolidated Industries 1922-56; Dir Gun Ammunition Dept of Munitions 1941-44; Sales Manager Masonite Corp (Aust) 1955. B. Melbourne 25 Jan 1901.

leisurely fashion and capacity in government factories was kept working at a moderate level even though output was added to the stockpile.

The attempt to clarify post-war policy in 1945 met with limited success. A proposal by the Minister for Munitions in February 1945 to retain a substantial post-war munitions industry was deferred,[7] and then in May the Defence Committee advised that stocks were so high that post-war defence forces could be supplied for a number of years without any need for new production. Nucleus production was endorsed in principle, but without any clarification of what this might mean in practice.[8] The Department of Munitions had in fact been too successful, and there was comparatively little interest by either the Army or the War Cabinet in maintaining a sizeable industry. The emphasis of all discussion was on tapering off production as quickly as was consistent with achieving a smooth transfer from war to civilian employment. The need to provide labour for reconstruction of the civilian economy was now the prime consideration of policy.

At the end of the Pacific war Production Executive laid down the following general principles for the cessation of war production, including the activities of government munition factories. War contracts were only to be continued to avoid heavy compensation payments arising out of the operation of "break" clauses, to afford time for the reconversion of industry, to avoid serious unemployment, and to permit the completion of partially finished goods. Only in exceptional circumstances were new orders to be placed, and only when materials and labour were not required elsewhere. Any continuation of war production was limited to two months beyond Service requirements.[9] In reaching this firm decision to reduce as far as possible as quickly as possible, the Government was concerned not only with the problem of civilian labour supply but also with the effect on post-war employment of the disposal of surplus war materials.

In the end-of-war haste to dismantle the arsenal, little attention was paid to the wartime dream of decentralised munitions production after the war. The story of factory and machine tool disposal belongs to post-war reconstruction and the work of the Secondary Industries Commission and will be considered in Chapter 24. Briefly, the dominant consideration in retention was size and economic efficiency; all the feeder factories were closed as munitions establishments and those that were retained were the two ammunition factories at Footscray, Victoria, and Finsbury, South Australia, the ordnance and explosives complex at Maribyrnong, Victoria, the ordnance factories at Bendigo and Echuca, Victoria, the explosives factories at Mulwala, New South Wales, and Salisbury, South Australia, and the small arms factory at Lithgow, New South Wales. As before the war, munitions productive capacity was concentrated in Victoria with support from New South Wales and South Australia; the small establish-

[7] War Cabinet Minute 4059, 27 Feb 1945; Agendum 8/1945.
[8] War Cabinet Minute 4197, 28 May 1945; Agendum 187/1945.
[9] Production Executive Agendum 90/1945.

ments in Western Australia, Tasmania and Queensland were either leased or sold to private industry.

The Department of Munitions was amalgamated with the Department of Supply and Shipping in April 1948 to form the Department of Supply and Development.

CHAPTER 16

SUPPLY IN THE FINAL PHASE

ACKNOWLEDGEMENT in 1943 of the over-commitment of resources and the need for greater attention to essential civilian needs affected the Department of Supply and Shipping and its agencies as much as the Department of Munitions. For most of 1942 complete attention had been given to the procurement of materials for war production; only incidentally were civilian needs taken into account. First moves towards greater attention to civilian requirements were taken at the end of 1942, as recorded in Chapter 4. In 1943 the change in emphasis was made more explicit and more formal.

This did not mean that there was any lessening of control over essential and strategic materials. Nor did it mean that there was any overall improvement in supply. On the contrary, the formal admission of civilian needs as a legitimate claimant on limited resources involved at the same time tighter overall control and more flexible administration. It also involved deeper penetration by the Department of Supply into the organisation of production in an effort to overcome specific shortages. By the end of the war the Department would be transformed from the Government procurement agency of 1939 into a loosely articulated multi-purpose organisation which embraced commodity production, procurement, allocation and distribution.[1]

Non-munitions supply in the final phase of the war was determined by such factors as manpower allocation (including changes in the effectiveness of labour), the availability of shipping and of imports, coal production, and changes in the scope of Lend-Lease. These variables interacted in unpredictable ways. At the beginning of 1943, for example, a shortage of copper developed because imports were blocked by shipping restrictions and because of the loss of labour. But by the end of the year when strenuous efforts had been made to bolster the mining work force at Mount Isa, Queensland, and elsewhere, increased domestic output had become unnecessary because of improved shipping between Africa and Australia. Examples of the opposite kind were, however, more common. The increasingly narrow definition of items eligible for Lend-Lease fell most heavily on civilian goods and on capital equipment which might have been used to augment civilian supply. Essential materials such as rubber, cotton yarn, and softwoods were in more limited supply at the end of the war than at any earlier stage. The fall in coal production after 1942 lowered the efficiency of labour generally, and created in 1944-45 new shortages of steel and associated goods. In general therefore Australia was to experience the common end-of-war materials supply exhaustion, although her difficulties cannot be compared with those countries which had formed theatres of war.

[1] As with Chapter 4, the writing of this chapter has been severely handicapped by wholesale destruction of records.

THE DIRECTORATE OF SUPPLY

Further reorganisation of the Department of Supply on 1st July 1943 was partly continuation of a well established administrative pattern, and partly recognition of the new importance attached to civilian requirements. The changes were made at the time of the transfer of the Division of Defence Foodstuffs to the Department of Commerce (see Chapters 8 and 18). Following the precedent of shipping in October 1942 (Chapter 9), two new directorates were established which concentrated authority over major areas of the department's responsibility. Creation of the Directorate of Supply brought together the Contract Board and administration of the routine commodity controls. As explained by Beasley, Minister for Supply and Shipping, the new directorate would be "responsible not only for the procurement of war supplies but also for the planning and control of production of both military and civilian requirements".[2] F. A. O'Connor[3] became Director of Supply and retained his position as chairman of the Central Contract Board. The advantage of the new arrangement was that the Director of Supply was in an improved position to allocate available supplies between competing uses, to establish and enforce priorities, and to intervene in production if and when required.

The second change was the establishment of the Directorate of Clothing and Textiles under G. A. Davis. As its name implied, all the clothing and textiles sections in the department were combined. The directorate was divided into Defence and Civilian Requirements Divisions, although the distinction between the two was not in practice so clearly drawn.

The remaining supply functions of the department were not brought under these umbrellas usually because special problems were associated with the commodity in question and separate arrangements had been made for its administration. Control and production of strategic minerals remained with the Minerals Production Directorate established at the beginning of 1942. Coal, a commodity which had only formal connection with the Department of Supply, was handled successively by the Coal Commission and the Coal Commissioner. Petroleum products, flax and fibres were handled by existing organisations.

Contracts

Contract arrangements were the heart of the Supply organisation. The financial framework of such arrangements had been laid down before Pearl Harbour and it is necessary in this section to glance back to 1941 and 1942.[4] There were broadly two categories of contract arrangements: one relating to munitions annexes and the other to private "outside" contractors. In the case of annexes detailed practice varied widely, but as a rule the annexe operator provided the building and the land adjacent to his main undertaking; the Commonwealth supplied the machinery and

[2] *Digest of Decisions and Announcements*, No. 61, p. 4.

[3] F. A. O'Connor, CBE. Secty Contact Bd 1936-39; Chmn Contract Bd 1941-46; Dir of Supply 1943-46; Secty Dept Supply and Shipping 1946; Secty Dept of Supply 1953-59. B. Leongatha, Vict, 13 Oct 1894. Died 16 Apr 1972.

[4] See Butlin, *War Economy 1939-1942*, pp. 304-11.

other equipment. The Government frequently assisted in other ways too, such as providing or arranging short-term credit for the purchase of raw materials. In approved cases long-term capital might also be made available to assist in the construction of a building. In these cases the Government preferred to construct on its own land but this was not always feasible. For his services the annexe operator was usually paid at the rate of four per cent added to the cost of production. Occasionally the company provided its services without charge to the Government or accepted a fixed management fee. But the most common remuneration was four per cent on cost.

The standard contract with outside firms was also based on "cost-plus". The expression covered, however, four distinct types of contract. The simplest and most common was cost plus a fixed percentage fee. Normally the contractor received a margin of 2½ per cent on raw materials and payments to sub-contractors, and 7½ per cent on labour and overhead costs. Alternatively he received 4 per cent on total costs, a method which produced a similar overall rate of profit. A small number of contracts were based on cost plus profit fixed in money terms, and fewer still used the target pricing method. In an effort to encourage cost saving and alter the nature of the profit incentive, target price contracts attempted to estimate costs as accurately as possible after a trial period. With the addition of an agreed margin of profit, a maximum price was established; any saving was shared between the Government and contractor on the basis of a sliding-scale formula.[5] The last method was cost-plus with maximum price. In this instance the final price was not to exceed the agreed maximum, but any unanticipated reduction in costs which indicated that above normal profit would be earned was to lead to an appropriate reduction in the maximum price. Although this method was regarded by many as the best available arrangement, it was not widely used until late in the war.

Well before Pearl Harbour there had been much criticism of the standard cost-plus-percentage contract. The most common cause for complaint in 1941 was that excessive profits were being earned, and that contractors had no incentive to economise. Added to this was the point, of particular importance in 1942 and 1943, that contractors were encouraged to increase their use of scarce labour and materials. As early as May 1941 the Manpower and Resources Survey Committee had recommended the phasing out of cost-plus-percentage and target price contracts in favour of fixed price contracts, but the report was not considered by the War Cabinet until September 1942.[6] Such delay continued to be the pattern. Other investigations were initiated, covering much the same ground as had already been explored; reports were submitted unfavourable to the continuation of cost-plus-percentage, but consideration of reports

[5] Details varied, but the most common practice was that on the first 10 per cent of saving the contractor received 20 per cent and the Government 80 per cent; on savings between 10 and 15 per cent the shares were 33 1/3 and 66 2/3 respectively; on savings in excess of 15 per cent the shares were 50 per cent each.

[6] War Cabinet Agendum 215/1941, Supplement 6; War Cabinet Minute 2374, 8 Sep 1942.

was delayed pending examination of technical detail leading ultimately to a further enquiry. Thus, after about a year's research, the Joint Committee on War Expenditure produced two reports on the contract system, the first in December 1941 on cost-plus in general[7] and the second in May 1942 on annexe contracts.[8] Apart from the now inevitable criticism of cost-plus-percentage, the committee mentioned the desirability of an additional and more detailed investigation. This was inaccurately portrayed as its main recommendation, and in September 1942 the War Cabinet appointed a Contracts Advisory Panel to go into the matter once again.[9] In the meantime the Minister for Home Security had conducted his own investigation, as had also an *ad hoc* inter-departmental committee.

In a confidential supplement to its report on annexe contracts, the all-party Joint Committee on War Expenditure provided a number of specific instances of what it regarded as excessive payments to contractors. The committee was moved to do so because of the claim by E. V. Nixon, Director of Finance in the Department of Munitions, that "excessive" profits had not been made. It cited, for example, the case of a contract for the manufacture of 4.5-inch howitzer shell let to a prominent international manufacturer of agricultural machinery. Remuneration was based on a fixed fee per unit, and the setting of a target price. The fee was set at 1s. 9d. per unit and the target price at £1 2s. 6d. (excluding materials). Production in the first half of 1941 was 121,074 shells at a cost of 11s. 1.59d. per unit (excluding materials), resulting in a remuneration of £10,594 plus a share in the cost saving—£13,763—for a gross profit in the half-year of £24,357, or approximately 11 per cent on the cost of materials or a far higher rate of return on capital employed.[1] In the view of the committee this instance and other such examples contrasted sharply with the practice of some contractors in providing their services free of charge or at a nominal fee; it was also anomalous in view of the fact that the Government had provided most of the plant and machinery and that very little risk was involved.

Few wartime contracts were as lucrative as this one, but the example illustrated the central and continuing problem of contract policy: how to devise standard contract terms which were fair and reasonable to both the Government and contractor under conditions of highly unpredictable and variable costs. For the manufacture of items not previously made in Australia, average cost could not be determined with any precision even after a trial period; nor could the rate of fall in average costs be anticipated as output expanded. With the rapid growth in output of standard munitions items in 1941 and 1942, large cost savings were achieved as in the case of the 4.5-inch howitzer shell. The Government considered, justifiably, that

[7] Joint Committee on War Expenditure, Second Progress Report, "Cost-Plus" Contract System — Interim Report, 17 Dec 1941. *Parliamentary Paper* No. 67.

[8] Joint Committee on War Expenditure, Fourth Progress Report, "Cost-Plus Contract System — Annexe Contracts, 7 May 1942. *Parliamentary Paper* F.3233.

[9] War Cabinet Agendum 215/1941, Supplement 6. The report of the Manpower and Resources Survey Committee was considered at the same time as the two reports of the Joint Committee on War Expenditure. The chairman of the Panel was R. D. Elliott.

[1] Memorandum to the Prime Minister, 13 May 1942.

it should receive the full benefit of these savings. The maximum price scheme appeared to be the best adapted to achieve this result, but for the Contract Board and the Department of Munitions the system favoured by the "outside" advisers had one serious deficiency: it was not sufficiently flexible to encourage contractors to undertake the technologically sophisticated new work which was required urgently, because the imposition of a maximum price could result in production at a loss. Thus the Department of Munitions strenuously opposed any general change from cost-plus-percentage which had proved its value in providing the requisite incentive. Some changes were made as a result of the spate of enquiries in 1941. After a detailed departmental examination, contracts with General Motors-Holden's and Ford Motor Company for the manufacture of Army motor vehicles were changed to a maximum pricing basis to eliminate the high profits that had been earned. (Manufacture of the more technologically complex Army requirements was no longer, at the end of 1941, experimental.) But cost-plus-percentage remained the norm.

Any change in 1942 was precluded, additionally, by the Japanese threat. Discussions of the appropriate level of profits and the use of resources in munitions manufacture were swamped by the urgent need to greatly expand the range of production and produce more of everything. Contractors found themselves, therefore, in an even more favourable position than before. Profits were rising, partly because of inflation, partly because of greater output, and partly because cost claims could not be checked adequately. The shortage of cost accountants had already produced a serious cost-checking backlog in 1941; the backlog became much greater in 1942. Further, munitions contractors were favoured in the allocation of labour and materials. By contrast, the profits of civilian manufacturers were squeezed by the operation of price control, by rationalisation, and by the withdrawal of labour and materials. The pronounced shift of relative profitability in favour of munitions manufacturers encouraged the swift transfer of resources to the war economy. In 1942 this was all important.

With growth in the scale of production after Pearl Harbour, modifications were made in the method of financial assistance to the contractors who were not operating annexes. The objective was to remove any financial difficulties which might impede the delivery of goods. These difficulties usually centred on the provision of working capital to finance accumulation of raw material stocks, make progress payments to sub-contractors, or meet the wage bill. In many instances all that was required was accelerated processing of progress payments, together with relaxation of the rules governing authorisation of such payments. Further, the Treasury agreed that the Department of Supply might of its own initiative advance up to £5,000. For loans in excess of this amount, Treasury approval was required after investigation and recommendation by Supply and on condition that other sources of finance had been exhausted. The loan could either be provided by the Commonwealth direct or by the

Commonwealth Bank with a Government guarantee. Beasley, Minister for Supply, objected to the involvement of his department as a financial investigating body, and urged that in the emergency conditions the resources of the private trading banks for overdrafts and financial investigation be used to supplement those of the Government and the Commonwealth Bank. But Chifley was having no extension of the Government guarantee to the private banks.[2] In principle, this method of financial assistance was merely a development of the practices of 1940 and 1941. But the codification of May 1942 eased the conditions for the supply of working capital and made finance available with greater speed. Few if any contractors were faced subsequently with serious short-term liquidity problems.

When the Contracts Advisory Panel commenced work in February 1943 it found that there had been a number of changes in contracts practice. In the three main manufacturing States there had been some shift away from cost-plus-percentage. In South Australia the local Board of Area Management had been moving progressively towards target pricing, claiming that very good results—and substantial cost saving—had been achieved. Boards of Area Management in Melbourne and Sydney preferred maximum pricing, although profit percentages were around 7½ per cent in Melbourne and 10 per cent in Sydney. Melbourne had also gone further in the control of sub-contractor profit margins, albeit with some difficulty. Contractors had clearly exerted strong pressure on the Board in Sydney, for it was claimed that the higher profit margin was necessary to induce firms to undertake work. In addition it was claimed that there had been strong resistance to fixed price contracts—the method favoured by the panel—and insufficient cost data to permit the use of this method.

While there was some advantage in allowing boards to adapt standard practice to suit local conditions, the panel was not convinced that manufacturing conditions in the three areas differed sufficiently to prevent the achievement of reasonable uniformity. Its first report completed in June 1943 recommended that practice converge on no more than three methods, with a clear priority for fixed prices. The panel argued that at this stage of the war, with most contractors having ample experience of repetitive munitions manufacture, costs should be capable of prediction with tolerable accuracy. Fixed price contracts were favoured because the maximum incentive was given to reduce costs; the method avoided the irritating profit-sharing procedures inherent in the target price system, and also the extensive amount of cost checking involved in maximum pricing. However, to sugar the pill the panel advocated the inclusion of a simple "rise and fall" clause to cover variations in the price of labour and materials. The panel suggested that target pricing could be used occasionally for routine manufacturing with constant review of actual costs, but that there should be a definite move away from cost-plus-percentage. The

[2] The Treasury argument rested on the technical point that the National Security (Guarantee) Regulations only permitted government guarantee of Commonwealth Bank loans.

panel urged that the method should only be used in specified circumstances: when there was a need for non-repetitive and exploratory work (for example aero-engine reconditioning and ship repair), when there was a need to use untrained labour, where there existed a marked lack of competition, or reason to doubt the fairness of quoted prices. In cost-plus work the panel recommended a fixed amount of remuneration wherever possible; otherwise it believed that profit should be based on a 2½ per cent margin on materials and 7½ per cent on wages (with adjustment depending on the amount of capital supplied by the Government). In short, the official scale that had reappeared in "Standard Conditions of Contracts" since 1941 was endorsed.

Consideration of the panel's report by the War Cabinet was delayed until November 1943 while production departments examined the implications. There was little outright opposition but a measure of passive resistance. What became clear was that departments and the Contract Board would interpret the recommendations in their own way and initiate change when it suited them. The understandable reaction was that each authority knew its own business best, and that there was little advantage to be gained from standardisation for its own sake. The War Cabinet dutifully endorsed most of the panel's recommendations,[3] but there is little evidence of any marked change in practice.[4] Cost-plus-percentage contracts were almost certainly less common in the last two years of war, but there was no marked shift from maximum pricing to fixed price contracts. In any case the change in official policy came too late to have much impact. With the sharp curtailment of munitions production from early 1944, the opportunity for revision of contract policy was restricted. Many of the new contracts let in the final eighteen months of war were in such fields as aircraft manufacture, aero-engine reconditioning, small craft manufacture, and radio and signals equipment where there was a stronger case for the use of cost-plus-percentage. As in so many other instances, policy had been overtaken by events.

Indirect evidence of the limited change in contract procedure is provided by the mounting problem of cost checking. Any significant move away from cost-plus and maximum pricing should have reduced the work of costing branches. In November 1943 it was estimated by the Treasury that of the 18,000 cost investigations current, 10,000 were in arrears. By the end of August 1945 the number of outstanding investigations totalled 15,720. Termination of contracts had added to the burden, but the continuing problem reflected the predominance of contracts requiring detailed cost checks. Sporadic attempts were made to reduce the problem. The Contracts Advisory Panel proposed some centralisation of cost investigation, a proposal actively supported by the Prices Commissioner who saw the Prices Branch as the co-ordinating authority. The Prices Branch was called in from time to time to help settle disputes between contractors and purchasing departments but not as a rule for routine investigations. Given

[3] War Cabinet Minute 3171, 24 Nov 1943; Agendum 479/1943.
[4] Details of new contracts let by type were not compiled.

the persistent shortages of cost investigators, the burden was somewhat reduced from 1944 onwards in the only possible way: by reducing the amount of checking actually done. Increasingly the checking of small contracts was waived, and for larger contracts the certificates of firms' own auditors were accepted as sufficient evidence. Even so delays which prevented final settlement of accounts were such that in 1945 the Treasurer complained that firms were being hindered in reconverting to civilian production because of the amount of working capital locked up.

The panel's second report of April 1944 on this occasion dealing with Government annexes made even less impact than its first report. Most of its recommendations were confined to housekeeping matters. Thus, it drew attention to the fact that in a few instances no formal agreement had been signed with annexe operators after a lapse of two years or more, and urged that all outstanding agreements be completed without delay.[5] It suggested that wherever possible annexes consist of extensions which would be built at the operator's expense and would ultimately be required by him. If this were not possible, annexes should be built by the Government and on government-owned land. The panel disapproved of the practice of granting the operator an option to buy a government-erected structure. Practice had already moved in this direction, but the main point is that at this stage the recommendations were far too late to have any impact.

In its own eyes the most important change proposed by the panel was in the method of remunerating operators. As noted earlier, the prevailing rough and ready practice was to allow as profit an addition of four per cent on production costs. As the panel pointed out, this yielded substantial variations in the profit rate as measured by the amount of operators' own capital used in annexes. Routine and labour intensive procedures, and those using large quantities of expensive materials, were more handsomely rewarded than specialised and capital intensive contracts. The panel noted that since the early war years there had been a trend away from four per cent on costs towards payment of a fixed management fee "determined arbitrarily as a fair payment for the application to the work of the annexe of the operator's technical knowledge, organising capacity and experience in the field", and that sometimes payment was based on a combination of management and unit fees. The panel concluded, however, that

> the custom of allowing, more or less automatically, 4 per cent on cost continued far too long without review and that, as a result, the amounts paid to various operators do not give comparative equity, and in some cases provide an excessive return to the operator.

The panel's objective was to standardise the method of remuneration and reduce slightly the rate of payment. But the desired solution was demon-

[5] In the haste to expand capacity in 1941 and 1942, many annexes had been built on the basis of a verbal undertaking. Subsequent negotiations had been allowed to drag on without reaching finality, partly because it suited the operator not to be tied down and partly because of some laxity by the Directorate of Finance, Department of Munitions. In self-defence the Director of Finance was quick to point out that delay had on occasions allowed the Government to secure better terms for itself. In general, however, the claim must be discounted.

strably impractical. It consisted of a fixed management fee (£500 per annum while the annexe was working), plus a rate of return of 3 per cent on total capital employed (government land, buildings and plant) for an annexe valued below £100,000, the rate falling progressively to 2 per cent when total capital reached £1,000,000 or more. In addition, a depreciation rate of 8 per cent was proposed for operator-owned capital. Despite having an accountant among its members, the panel did not appear to appreciate that its formula offered no solution. At the best of times capital is difficult enough to measure even with an acceptable definition. Under war conditions with private and public capital inextricably combined and with an acute shortage of qualified accountants, the task was virtually impossible. And even if the modifications had been within reach, it would have been of doubtful benefit to the war economy and created new inequalities. When a monetary incentive was deemed to be appropriate, the obvious course was to reward production rather than capital; and when a direct monetary incentive was less important, payment of a fixed management fee was more consistent with the aims of wartime economic policy. The Contract Board had been moving sporadically and incompletely in this direction. At the end of the war there were still glaring inconsistencies, by no means all of them within the capacity of the Government to remove. But modification was at least in the right direction.

The general impression of lassitude in the definition of policy and some administrative permissiveness in the application of contracts procedures should not obscure the fact that the rules were applied more rigidly and consistently from 1943 onwards. While hard evidence is elusive, the records that have survived convey the distinct impression that exploitation of the war economy by contractors was much less common in the years 1943-45 than in 1940-42. After the turning point of early 1943 the profitability of defence production was by post-war standards fairly low. A rate of 10 or 11 per cent on book valuation of capital employed was regarded as excessive; the policy objective of the Victorian and South Australian Boards of Area Management was to keep the rate near to 5 per cent, an objective which appears to have achieved fair success. In New South Wales 10 per cent was accepted much more readily.

In other ways, too, administration was tightened in the latter part of the war. One example will illustrate the nature of the changes that were attempted and the problem of effective enforcement in the context of business representation on Boards of Area Management. Until fairly late in the war there had been very little attempt to control the costs and other conditions of munitions sub-contractors. The principal contractor was allowed to arrange his own sub-contracting and exercise cost control in his own way. The Contract Board was understandably reluctant to interfere except in a general way with the myriad of highly technical sub-contracting arrangements, and for the most part the *laissez-faire* attitude was not abused. But it was an obvious source of weakness. In 1944 the Victorian Board attempted to extend its standard controls to sub-

contractors mainly by asking principal contractors to submit their larger outside orders for prior approval. At the same time the board was attempting to switch from cost-plus to maximum or fixed price contracts. On both counts the board met the stiff opposition of one of its members, Charles Ruwolt,[6] also head of the large engineering co-ordinating contractor of the same name. In the end Ruwolt refused to accept the supervision of his own sub-contracting as laid down by the board believing, unfairly, that his firm had been singled out for special treatment. In so doing he weakened the attempt to control sub-contracting in Victoria. At this late stage Ruwolt's attitude was of little consequence. But the point is that, given the limited competition in many areas of Australian manufacturing and the need to use the available business talent in wartime administration, there were clear limitations to the exercise of supervision of commercial practices. Profitability may have been kept within reasonable limits, but the business influence within Munitions ensured that the bureaucrats were kept at bay.

The Board of Business Administration, formed in November 1939 to overview the business and procurement practices of the Defence Department,[7] continued to perform invaluable service during the Pacific war under the chairmanship of Sir George Pearce. The effectiveness of the Board was sharply curtailed in 1942 as considerations of efficiency and cost-effectiveness were overwhelmed by the urgency of full mobilisation, but in 1943 its old authority was gradually restored. As before Pearl Harbour, the Board busied itself with an infinite variety of commercial arrangements affecting the Services, particularly the leasing of buildings and equipment. Towards the end of the war the emphasis shifted to the scale of Service ordering in relation to stocks held, and in many instances orders were reduced or cancelled in the light of the stock position. In August 1945, for example, a Department of Air order for mosquito netting to the value of £67,000 was cancelled when the Board pointed out that the Army held surplus stocks. In the final report on its wartime activities the Board estimated that it had saved £6,542,501 since December 1939,[8] a figure which makes no allowance for indirect savings through improved efficiency.

When policy on the termination of war contracts emerged towards the end of the war the decisions that were taken reflected a rough balance between reconstruction objectives and financial prudence.

Prior to the latter part of 1944 production departments had terminated contracts in their own way as the need arose and without central oversight. There were no established principles for the payment of compensation. The question of compensation was kept in the background either by

[6] C. Ruwolt. Managing Director Charles Ruwolt Pty Ltd; mbr Vict Bd Area Managt, Dept of Munitions. B. Mt Gambier, S.A. Died 4 Nov 1946.

[7] Butlin, *War Economy 1939-1942*, pp. 211-13.

[8] "Monthly Report of the Board of Business Administration — August 1945", Commonwealth Records System A571, W41/5299, Part II.

allowing existing contracts to run their course (even when the item was no longer needed) or by the placement of new orders with the firm whose existing contract had become redundant. However, the beginning of industrial demobilisation in 1944 required a more systematic approach. By November the Treasury had won acceptance for standard termination conditions. These involved the insertion of a "break clause" in existing contracts which enabled the Government to cancel agreements on the payment of "fair and reasonable" compensation. The following rules were laid down to help determine what was a "fair and reasonable" claim. Claims for loss of profit were to be allowed only to the extent that profit could be claimed for work actually performed: no compensation for loss of profit was to be allowed on the unexpired portion of the contract. The only exception was when a firm would be seriously disadvantaged financially by the non-payment of profit on which it had been counting, the desire being to avoid post-war disemployment. Similarly, no compensation was to be paid on capital losses for such assets as buildings and equipment unless these assets were purchased specifically for Commonwealth contracts. Progress compensation payments were permitted without prior Treasury approval so as to accelerate reconversion to peacetime production. In short, industry was to be compensated on a cost-plus basis but not for contract cancellation as such unless industrial reconstruction would be seriously impaired.

The same principles were applied at the end of the war when the War Cabinet instructed that all war contracts should be terminated as quickly as was consistent with the maintenance of full employment.[9] With the Director of Supply as chairman, an inter-departmental committee on the "termination of war production" was appointed to expedite the determination of detailed policy. As most firms were anxious to switch to peacetime production and re-establish themselves in the market, contracting departments usually found little difficulty in terminating agreements and finalising settlement—a procedure which was aided by the devolution of authority to individual departments, by the practice of accepting the statements of responsible officers of companies (or their auditors) about the cost of work in progress, and by the moderate generosity of the Government in paying compensation.[1] By the end of 1945 most contracts had been liquidated. The inter-departmental committee reported that of the three large contracting departments only Aircraft Production had a large number of contracts outstanding and that most of these related to the supply of replacement parts.[2]

Commodity Controls

Control of most essential materials had been established by early 1943; subsequent changes were limited and normally followed further deteriora-

[9] War Cabinet Agendum 348/1945; Minute 4351, 17 Aug 1945.

[1] As part of the terms for compensation payments, departments were authorised to make progress compensation payments up to 80 per cent of a firm's claim so as to facilitate the flow of funds for reconversion.

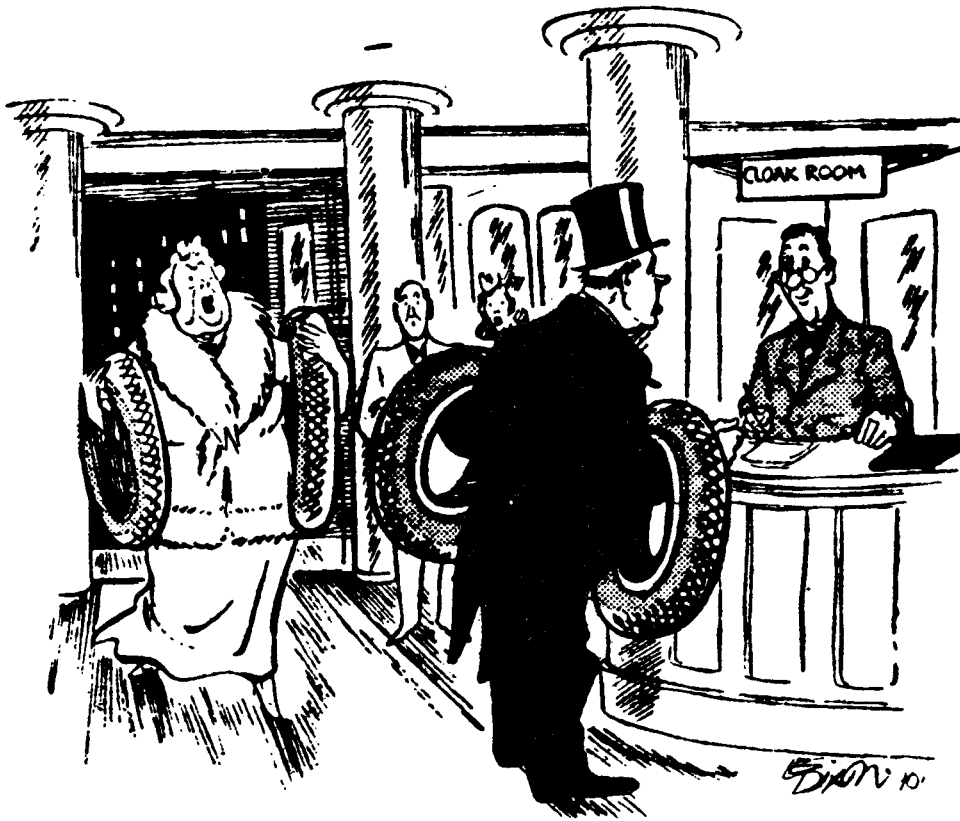
[2] Full Cabinet Agendum 1056.

tion in supplies of particular commodities. Rubber was a clear example. Supplies deteriorated rapidly in 1943 and 1944 which provoked a drastic reduction in non-military usage and consideration of proposals for the manufacture of synthetic rubber. Controls were also tightened over brushware, leather, jute, sisal and automotive spare parts. But between 1943 and 1945 the Directorate of Supply administered most commodity controls as a matter of routine with the qualification that more sympathetic consideration was given whenever possible to meeting minimum civilian needs.

With the loss of Malaya and the Netherlands East Indies to the Japanese, consumption of rubber goods had been reduced by one-half in 1942. As indicated in earlier discussion of the problems of land transport, this was achieved by severe rationing to civilians, encouraging recapping and retreading of motor vehicle tyres and by severely limiting the range of rubber goods manufactured. The Allies' crude rubber stocks continued to fall heavily so that new restrictions were necessary in Australia in August 1943. Distribution of tyres was tightened by integration of controls exercised by the Controller of Rubber, Land Transport and Liquid Fuel, and by active encouragement of the pooling of civilian motor transport. The purchase of tyres for any other than the highest priority civilian need was prohibited; a permit was required for purchase of any other rubber goods.[3] Recapping and retreading was restricted to high priority users only.[4] By the end of 1943 the rubber shortage had become a more severe limitation on private motoring than petrol rationing and many more motorists were forced to store their cars for the remainder of the war. (The illicit trade in petrol coupons was thereby enhanced.)

With the further decline in rubber stocks held by the Allies in 1944, the Combined Raw Materials Board pressed for rapid conversion from natural to synthetic rubber. This was of more than wartime significance, for it was anticipated that it would be many years before Malaya and the Netherlands East Indies could restore their pre-war capacity. In Australia experimentation in the use of synthetic materials had been undertaken by the Council for Scientific and Industrial Research and the rubber companies in 1943, and a small pilot plant had been in production since the beginning of 1944. A technical mission visited the United States in mid-1944 to gain further information, and on its return set about helping to prepare a plan for the progressive introduction of synthetic materials. In November 1944 the War Cabinet endorsed a programme of conversion to synthetic rubber using materials imported from North America which was designed to reduce Australian crude rubber consumption by 55 per cent by the end of 1945.[5] But the technology of synthetic rubber production was still in its infancy and was more labour intensive than processing of the natural material.[6] There was therefore considerable delay in

[3] Control of Rubber (Distribution of Motor Tyres and Motor Tubes) Order, 2 Aug 1943.
[4] Control of Rubber Order (No. 8), 2 Aug 1943.
[5] War Cabinet Minute, 21 Nov 1944, on Agendum 531/1944.
[6] See Mellor, *The Role of Science and Industry*, p. 136.



"Never mind about my hat and coat—would you please check these in?"

Dixon in Smith's Weekly *(Sydney), 11 Sep 1943.*

providing the necessary manpower and in installing the new plant and equipment obtained from abroad. By the end of the war conversion to synthetic materials had made some progress, but the main impact of the programme was in relief of the shortage immediately after the war.[7]

In March 1944 the extension of control already established over brushware[8] was an example of the intensification of restrictions to yield a more rational allocation of scarce materials between civilian and military uses. Previously natural bristles and toothbrush handles were the only materials subject to formal control; substitutes such as nylon and horsehair were controlled only by mutual agreement with the trade. But heavy military demand in 1943 and the continued shortage of natural bristles (obtained mainly from China) made necessary control of all bristle materials so as to secure minimum supplies for civilians. Further, encouragement was given to the production of broom millet in the period 1943-46 by setting a production target of 1,000 tons a year and by an increase in price. Because of poor seasons the production target was not reached until 1946, but brushware control was able to arrange for the import of substitute materials to meet civilian requirements.

A further illustration of the intervention of the Department of Supply to ease civilian shortage is provided by the introduction of utensils control in December 1943.[9] Heavy purchases by the Services in 1942 and 1943 had denuded retail supplies, so control was taken over production and distribution of holloware, dairy utensils, cutlery and crockery (plasticware was added later). A Controller of Utensils was appointed.[1] The control exercised an overview of Service purchases, and managed to arrange manpower and materials for a moderate increase in production. But the main relief came from sponsorship of large imports of cutlery and crockery from Britain in 1945, and by the end of the war the worst of the utensils shortage was over.

Tight control of most other major commodities was necessary until the end of the war and in some instances well beyond. In 1944 Jute Control was faced with the imposition of quotas by the Combined Raw Materials Board, although the allocation to Australia was sufficient to meet essential needs. From April 1943 jute prices were stabilised by the payment of import subsidies under the Price Stabilisation Scheme (see Chapter 19). Supplies of jute were at their lowest point in 1946 and it was necessary to continue the Government buying plan through the early post-war years. Similarly, tight control of such fibres as sisal, manila and coir yarn was necessary until 1947. Control of canvasware was introduced in December 1943[2] for the same reason and at the same time as utensils control: a substantial increase in productive capacity was necessary to

[7] The last of the rubber control orders was removed in Dec 1946, rather earlier than had been anticipated.

[8] Control of Brushware (Consolidating) Order, 17 Mar 1944, following Production Executive Decision 402, 23 Nov 1943.

[9] Utensils (Miscellaneous) Order, 7 Dec 1943.

[1] N. K. B. Keysor, Managing Director of Metters Pty Ltd, a large manufacturer of metal utensils.

[2] Control of Canvasware Order, 7 Dec 1943.

meet the heavy Service demand for tents, webbing, kit bags, haversacks, etc. Under the direction of the Controller of Canvasware,[3] capacity was expanded considerably by making use of sewing machines and female labour which had been employed previously in the production of rubber goods, toys, sporting equipment and leatherware. Demand by the Services for canvasware had proved considerably greater than might have been expected because the product deteriorated much more rapidly in the tropics. Other controls such as those over leathergoods, tinplate and automotive spare parts remained substantially unchanged for the remainder of the war.

CLOTHING AND TEXTILES

Formation of the Directorate of Clothing and Textiles on 1st July 1943 was of significance on several counts. As noted earlier, all the clothing functions of the Department of Supply were brought within the overview of a single Director, G. A. Davis; the department now accepted explicitly responsibility for production to meet both military and civilian requirements; there was to be a new emphasis on overcoming civilian shortages and accordingly more active intervention in production; the number of departments and agencies interested in aspects of clothing was reduced with consequently improved prospects for co-ordination. With the demise of the Australian Clothing Council, shortly after the establishment of the Directorate of Clothing and Textiles, inter-departmental collaboration was maintained through the Prices Stabilisation—Clothing and Textiles Committee and Clothing Trades Manpower Advisory Committees. The Department of War Organisation of Industry progressively reduced its involvement with clothing; the remaining styling orders were transferred to the Department of Supply at the end of 1944.

The directorate faced a very difficult supply position. Military demand, while lower than the peak of 1942, was still insistent. In 1943 as a whole the Services and the Americans absorbed about sixty per cent of worsted, blanket and rug production and a higher share of cotton production. While all sectors of the industry had expanded rapidly in the first four years of war, total output was on the point of decline in mid-1943. There were several reasons for the turnround but the overstrain of manpower was the most important. The industry relied heavily on women, and on rates of wages about one-half those of men. In the overfull employment of 1943 and 1944, clothing and textiles lost labour to better paid and often more congenial work. Further, clothing and textiles shared in the general post-crisis decline in productive efficiency, and there was a marked decline in the length of the working week despite an official attempt to restore the 96-hour fortnight of 1942. Finally, there was a chronic shortage of imported materials, notably cotton yarn and cloth. By 1944 cotton had become so scarce that factories were forced to work well below capacity or switch to the production of woollens or worsteds.

Decentralisation was seen as one solution to the shortage of female

[3] Ivor Evans, Managing Director of Evans Evans Pty Ltd, of Melbourne, was appointed.

labour. Following the precedent of munitions production, clothing factories were established in the larger country towns, mainly in New South Wales and Victoria, to make use of remaining groups of underemployed women and girls. The Department of Supply estimated that in June 1943 there were some 10,000 sewing machines idle because of labour shortages. It was a comparatively simple matter to relocate these machines in the country, and in the course of 1943 factories were established in Wollongong, Goulburn, Junee, Cootamundra, Newcastle and Moss Vale (New South Wales), and in Benalla, Sale, Ararat, Eaglehawk and Ballarat (Victoria).[4] All these factories were established by private enterprise but with the assistance of Supply; most became branch factories to the main concern in Sydney or Melbourne. Country factories normally were set up for the civilian made-up clothing trade. Manufacture of military clothing and textiles remained in metropolitan or established regional centres such as Geelong (Victoria). Decentralisation did help to ease the labour supply bottleneck in 1943 and the early part of 1944. But the dearth of cotton materials restricted the value of branch factories thereafter; in 1945 most were under sentence because of the resumption of imports from Britain.

The cotton supply problem was of two kinds. First and most obviously, there had been a drastic cut in imports of raw cotton, yarn, cloth and piece goods. Imports from Britain were unreliable and down to a trickle. The enforced switch to India as major source of supply did nothing to improve reliability and caused a sharp reduction in the quality of imports. The United States supplied raw cotton through Lend-Lease, and occasionally quantities of specialised fabric for military purposes (for example rot-proofed cotton duck for the tropics). But as Lend-Lease was increasingly related to specific military needs in 1943 and 1944, little American cotton was available for diversion to civilian production. In 1943 and 1944 civilian cotton-goods consumption was down to about one-third of its pre-war level.

Second, there was a sharp reduction in quality. Australian mills did not weave fine fabric and before the war material of this quality was obtained from abroad. With the wartime shift from the United Kingdom to India as the major overseas source of supply of piece-goods, high quality goods virtually disappeared from the market. Non-standard items were also scarce, and there were constant complaints about the shortage of baby wear and children's wear. Elastic materials for use in association with cottons were almost unprocurable. (One result was a reduction in supplies of women's corsets, foundation garments, and swim wear.) In short, civilians had to make do with a limited range of poor quality cotton clothing until the end of the war. More imports were available from the United Kingdom in 1945, but the Control of Cotton Materials Order was not revoked until 28th May 1946.

By contrast there was no overall shortage of woven woollen and worsted materials for either military or civilian requirements. Mill capacity was

[4] This is not intended to be an exhaustive list.

able to meet a high proportion of requirements before the war, and wool in all grades was in adequate supply. In October 1943 it was estimated that production of woollen and worsted materials for civilian requirements was at an annual rate of 35,000,000 square yards compared with the Rationing Commission's need for 26,000,000 square yards a year and pre-war consumption of about 31,000,000 square yards a year.[5] Some children's items were in short supply, but the overall position was good, stocks of standard items such as work shirts, trousers, pyjamas and underwear were accumulating, and exports of blankets to the Eastern Group Supply Council were being made.

CLOTHING AND TEXTILES

	1938-39	1942-43	1943-44	1944-45	1945-46
Cotton Spinning and Weaving:					
Factories	33	69	70	74	78
Employment	3,589	7,868	7,908	7,667	7,253
Output (£'000 current)	979	2,548	3,412	3,362	3,227
Woollens and Tweed:					
Factories	90	118	116	122	114
Employment	19,608	26,436	24,858	23,095	21,536
Output (£'000 current)	4,791	10,075	9,319	8,861	8,951
Hosiery and Knitteds:					
Factories	313	326	341	363	376
Employment	18,159	15,654	16,017	16,691	17,091
Output (£'000 current)	3,809	5,332	5,730	5,727	5,865
Tailoring and Clothing:					
Factories	1,177	1,101	1,160	1,268	1,420
Employment	26,499	26,043	25,872	28,108	30,047
Output (£'000 current)	4,812	6,557	7,248	8,067	8,881

Source: *Commonwealth Year Book*, No. 37.

Adequacy of supply prompted pressure from the clothing trade for relaxation of controls in the form of an increase in the range of styles and an improvement in quality. A standard complaint was that mills were restricted to the production of single-weft cloth because the manufacturing process was less labour intensive than for double-weft cloth. Production Executive was invited to relax this restriction in October 1943 but the matter was deferred because of the manpower implications. But in July 1944 approval was given for the use of one-sixth of mill capacity for the production of double-weft cloth, and in March 1945 the proportion was increased to one-quarter. All restrictions were removed in October 1945 in line with the general relaxation of controls on clothing manufactures. The removal of these controls did not lead, however, to early multiplication of styles and increase in the range of qualities. As noted by the Controller of Woollen Materials[6] in August 1945, there had been little

[5] Production Executive Agendum 17/1942, Supplement 2, 28 Oct 1943.
[6] R. J. Vicars.

need for the exercise of controls since 1943.[7] Manufacturers were severely constrained in the range and quality of their output by manpower shortage, and adhered to labour-saving practices of their own volition. In the final phase of the war, therefore, the Manpower Directorate and the Prices Branch exercised more influence than the Department of Supply over woollens and worsteds and other branches of the trade.

The Knitted Wear Order of May 1942 had been designed to encourage mass production of permitted styles. Manufacture of fancy knitted fabrics and elaborately patterned garments in limited quantities was highly labour intensive, so substantial manpower economies were expected from standardisation. In some categories operation of the control resulted in a reduction of ninety per cent in the number of styles produced. Thus, in the case of knitted outerwear there were prohibitions on jacquard pattern, stripes and colours; only four fabrics could be used in the making of cardigans and pullovers; pockets were not permitted on pullovers; cardigans were not made for boys and girls with chest measurements up to thirty inches. In the case of underwear, there were prohibitions on the use of motifs, embroidery and tucking. In describing the regulation of brassiere production, one official who must remain nameless declared solemnly:

> There is a restriction on the manufacture of vests and slips with a brassiere top (other than slips having an opera top). Brassiere tops were a feature of the higher grade rayon garment. They are better fitting, but are not considered necessary.

There were controls on the size of bloomers, the number of buttons and suspenders per garment, and on the use of elastic materials. These controls did save large amounts of labour. As indicated in the table, output was appreciably higher in 1943-44 than before the war even after allowing for price changes and despite a twelve per cent reduction in employment. But they did cause much irritation.

As in the case of woollens and worsteds from 1943 on, output of knitted goods was sufficient to meet the civilian ration and defence needs. In addition large quantities of standard goods were supplied to the Americans and the Eastern Group Supply Council, including 13,500,000 pairs of socks for India. There were of course shortages of some items, and quality was lower than before the war. One item in very short supply in 1943 was infants' shawls, in part because of an unexpected rise in the birth rate.[8] Underwear in large sizes was also scarce; overall, however, supplies were sufficiently good and manpower control sufficiently rigorous for comparatively early relaxation of the control. In September 1944 the range of permitted sizes and styles was increased. There was further relaxation in July 1945, and effective abandonment of control in October.[9] Throughout 1945, however, manufacturers took little notice of the letter of the law and revocation of control had become a formality.

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[7] Memorandum by Controller of Woollens to Director of Supply, 7 Aug 1945.
[8] Production Executive Agendum 77/1943, 22 Jun.
[9] Control of Knitted Goods Order, No. 3, 2 Oct 1945.



HE'S TELLING SANTA CLAUS.

Hallett in Smith's Weekly (*Sydney*), *2 Dec 1944*

COAL

Even before the outbreak of the Pacific war the coal-mining industry had received more attention from the Government than most other industries. A prolonged strike of miners in 1940 had reduced stocks of coal to a dangerously low level; the productive capacity of the mines and the attitude of the men were not such as to allow stocks to be rebuilt to a level which would provide insurance against an enemy attack. In February 1941 a Commonwealth Coal Board had been established for the purpose of rationalising distribution, especially the use of coastal shipping. But distribution was only part of the problem: in August 1941 a Coal Commissioner, N. R. Mighell, had been appointed; in February 1942 the single Commissioner had been replaced by the Commonwealth Coal Commission headed by Mighell with extensive power to control "the production, treatment, handling, supply, distribution, storage, marketing and use of coal". Meanwhile, special arbitration and conciliation machinery had been established under Judge E. A. Drake-Brockman in an effort to improve industrial relations. This took the form of a Central Reference Board supported by Local Reference Boards. Thus, the machinery for central control of the industry had been established before the end of 1941; in most other industries this was attempted only after the fall of Singapore.[1]

War with Japan placed the industry in an even more vital position than it had been before. The expanded munitions programme depended ultimately on coal. So, too, did the railways, coastal shipping and many other essential services. War in the Pacific made vital the accumulation of adequate stocks of coal at strategic points throughout the country. No government whatever its source of political power could tolerate, in these circumstances, any avoidable interruption to the working of the mines. In short, a dramatic improvement in industrial discipline was expected; as part of the price the Government was willing to accept improvements in rates of pay and working conditions to a degree which would have been resisted if sought in other industries. Thus, in 1942, policy represented material concessions in exchange for effective surrender of the right to strike.

Measured by the number of working days lost as a result of strikes, there was a substantial improvement in industrial discipline in the industry in 1942. The amount of lost production was lower than at any time since the middle nineteen thirties; the average number of days worked per man per year increased markedly; total coal output was a record; stocks were rebuilt by the end of the year to a moderately safe level of about seven weeks' consumption. From the point of view of war production these were the important facts, the details of which are elaborated in the accompanying tables.

But there was an important qualification to this appearance of industrial tranquility. The number of separate industrial disputes in coal-mining rose from 362 in 1939 to 395 in 1941, and then to 447 in 1942. A great

[1] See Butlin, *War Economy 1939-1942*, pp. 408-25.

majority of the disputes in 1942 were very short: on average the men involved were on strike for 1.6 days compared with an average of 8.2 days in 1940. Many of the disputes lasted less than a day and caused little loss of output. At any other time the Government would have discounted the rise in the number of stoppages and emphasised the rise in output and productivity. But in 1942 the large number of separate stoppages received a disproportionate amount of publicity; a popular view was that these strikes were intended to sabotage the war effort. It is this which explains the apparent anomaly of a Labour government introducing and using penal provisions against coal miners at a time of unusual industrial quiescence.

BLACK COAL PRODUCTION, STOCKS AND EMPLOYMENT

	Production					
	N.S.W.	Other States ('000 tons)	Total	Stocks ('000 tons)	Employ-ment	Output per man-year (tons)
1939	11,196	2,339	13,535	n.a.	21,125	640.7
1942	12,206	2,744	14,950	2,064	21,774	686.6
1943	11,474	2,690	14,164	1,308	22,068	641.8
1944	11,043	2,694	13,737	921	22,194	619.0
1945	10,176	2,617	12,793	602	22,233	575.4
1946	11,186	2,700	13,886	706	22,335	621.7

Source: *Second Annual Report of the Joint Coal Board,* 1950.

In January 1942 the first tentative step was taken. January was usually a bad month for stoppages and absenteeism. In 1942 the men sought accelerated introduction of an already agreed miners' pension scheme. The coal control regulations were promptly amended[2] to allow the Miners' Federation or any other employee organisation to expel from membership any member who refused a union direction to return to work. The obvious intention was to strengthen Miners' Federation control of its members, but formally the Federation already had extensive disciplinary power and the force of legal sanction was unlikely to alter the widespread defiance of union direction by the militants. The same amending regulations prohibited colliery owners from closing mines without the permission of the Coal Commissioner.

More significant were the "disciplinary regulations" of April 1942 which empowered the Commission, which by now had replaced the Commissioner, to deal with any persons who failed or refused to work without reasonable cause by directing that they be called up for military or labour service.[3] This step was not taken in response to any specific industrial flare-up. Stoppages continued but they were at a low point in March and April. Rather, the regulations were more in the nature of a reaction to the uninterrupted southward march of the Japanese. In these grim weeks there was need for absolute discipline to be enforced by the most stringent penalty.

[2] Statutory Rules 1942, No. 10, 9 Jan.
[3] Statutory Rules 1942, No. 168, 14 Apr.

These regulations were intended to act as a deterrent, and to be used only as a last resort. But they did not offer any solution to underlying problems, and a Labour government was unlikely to be able or willing to use them except under emergency conditions. Thus in May 1942 at a time of some increase in the number of stoppages, there was a distinct shift away from the emphasis on penal sanctions. At the end of that month the Prime Minister called a conference in Canberra of representatives of colliery proprietors and mining unions for the purpose of achieving agreement as to how best to obtain full and continuous production. Under Curtin's skilful chairmanship the outcome was substantial agreement by both sides on a set of rules and procedures (the "Canberra Code") for preventing and settling disputes. The "Canberra Code" has been described as the first voluntary agreement between unions and management for the avoidance of industrial disputes in the history of the industry.[4] The agreed procedure was simple. At each colliery a committee was to be formed comprising three management and two union delegates for the purpose of discussing any industrial matter. Decisions of the committee were not to be binding, but if the matter in dispute could not be settled by the committee it was to be referred to higher union and management authorities and from there, if still unresolved, to the appropriate Reference Board.

BLACK COAL MINING: INDICATORS OF INDUSTRIAL RELATIONS

	Industrial Disputes No.	Working days lost	Output lost because of strikes in N.S.W. ('000 tons)
1939	362	291,067	1,275
1942	447	177,565	745
1943	550	326,231	1,040
1944	660	389,582	1,335
1945	693	611,312	1,875
1946	684	350,366	893

Note: The estimates of output lost because of strikes in New South Wales are those of the Joint Coal Board. They differ substantually from those made by C. G. W. Davidson in his "Report on the Coal-Mining Industry", Vol. 1, *Parliamentary Paper* No. 51, March 1946. The Davidson estimates are too high but the Joint Coal Board figures should be interpreted with caution.

Source: *Labour Reports* and unpublished papers of the Joint Coal Board.

The decision of that board was to be binding, and no stoppage of work was to take place until this procedure had been exhausted. Most of the emphasis was on conciliation and on on-the-spot settlement of disputes; arbitration was intended to be a last resort. The code was a sensible and flexible arrangement that might have been effective in its purpose if organisational deficiencies had been a major cause of poor industrial relations in the industry. But the causes of conflict were more deep-seated.

[4] C. G. W. Davidson, "Report on the Coal-Mining Industry", *Parliamentary Paper* No. 51, Mar 1946, para. 46.

The object of the "Canberra Code" was to reduce the incidence of stoppages so as to allow production to exceed 15,000,000 tons per year for the remainder of the war. For a time it appeared as though this target would be reached. The "disciplinary regulations" were tightened in July by making it an offence for any mine worker to "counsel, procure, urge, incite or encourage" any other miner to stop work, although it was made a legitimate defence in any prosecution that the executive of a union had authorised these activities.[5] A number of prosecutions were launched in the Maitland and Newcastle areas, and for the remainder of 1942 stoppages were at a low level.

But in 1943 there was a steady rise in the number of stoppages, and in the amount of time lost because of strikes and absenteeism. Total output and output per man fell, although at first these reductions were not of major proportions. By the winter months coal production had become a major political issue and was to remain so for the remainder of the war and beyond.[6] The industry became the subject of endless inquiries, conferences, parliamentary debates, press and other propaganda and, inevitably, national security regulations. While it was widely acknowledged that the industry's problems were complex and unlikely to be resolved by short-run expedients, the issues were normally presented in simplistic terms. Those of anti-labour persuasion described the miners and their leaders as undisciplined, irresponsible, capricious and either Communist or subject to Communist influence; the miners, for their part, charged colliery-owners with being the worst type of capitalist exploiters and inclined to Fascism. Miners sought nationalisation of the industry.

In the growing controversy all attention was focused on the inadequacies of production. Even the Government gave exclusive attention to production problems in one form or another. This has obscured the fact that the "coal crisis" of mid-1943 was the product of rapid growth in demand as well as of a fall in supply. In the year to mid-1943 the demand for black coal had increased by about 1,000,000 tons or fifteen per cent to about 15,500,000 tons. This growth had been due largely to the impact on the railways of the build-up of troop movements, and to the expansion of munitions production. On the unreal assumptions of the complete absence of industrial stoppages of all types and elimination of all avoidable absenteeism, total production could have reached 16,000,000 tons in 1943.[7] But on more realistic assumptions maximum capacity was in the vicinity of 15,000,000, the figure envisaged at the time of the "Canberra Code" conference and about the level of actual production in the record year 1942. As demand for coal was well in excess of maximum feasible production by mid-1943, portion of the "coal crisis" can be explained in terms of the general over-commitment of resources.

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[5] Statutory Rules 1942, No. 328, 25 Jul. It was also made an offence to "spread false or misleading reports . . . with respect to lock-outs, strikes, or stoppages of work, at any coal mine". Prosecutions were to be launched in the Commonwealth Arbitration Court.

[6] See Hasluck, *The Government and the People 1939-1942*, pp. 388ff.

[7] This estimate of maximum technical capacity in 1943 was obtained as follows: actual production 14,164,000 tons, plus amount lost by strikes 1,040,000 tons, plus amount lost by avoidable absenteeism 860,000 tons; total 16,064,000 tons.

Nevertheless, the popular version is largely correct: the coal shortage was due mostly to the failure of the industry to operate at maximum feasible capacity. In 1943 the industry operated at 94 per cent of feasible capacity, in 1944 at 92 per cent, and in 1945 at 85 per cent. Most of the short-fall in these years was due to strikes and avoidable absenteeism, but it should be noted that coal-mining had features in common with other industries which tended to lower production in the final phase of the war. While cynics claimed that coal-miners enjoyed a disproportionate amount of leisure time, fatigue was a problem in this industry as elsewhere. Further, fatigue was aggravated by extremely poor working conditions. Labour efficiency was also affected by an increase in the average age of miners. While the total mining work force increased slightly, young men withdrew from the industry in 1941 and 1942 and were replaced by older men many of whom had been unable to obtain work during the economic depression of the early nineteen thirties. Also in common with other industries, the stock of capital equipment had deteriorated during the war.

An examination of the reasons for the growth of industrial turbulence lies outside the scope of this volume.[8] But we should note that the war presented miners with unique circumstances; in no previous period was the demand for their labour so great that every individual miner was able to feel indispensable. In the inter-war years there had been little continuity of work, and industrial relations had been poisoned during the great strike of 1929-30 and the subsequent collapse in demand for labour which allowed colliery proprietors to ride roughshod over awards and agreements. Like the waterside workers whose role will be discussed in a later chapter, the coal miners were intent on taking full advantage of their new-found industrial strength particularly as their bargaining advantage was not expected to last much beyond the end of the war. Broadly the men accepted the national emergency argument in 1942, but thereafter pursued direct action at a rate which accelerated in proportion to the improvement in the military situation. To be sure, a high proportion of the disputes appeared to be irrational and purposeless as when the introduction of butter rationing precipitated a round of stoppages. Much disruption was caused by intra-union rivalry, by real and imagined safety issues, by the political activities of self-styled Communists and other habitual exploiters of dissatisfaction. It was the seemingly trivial nature of so many of the disputes which roused the press to frenzy, and provoked the indignant reaction of the Government and the rest of the community. But most of the disputes were linked by one psychological route or another to resentments which had been accumulated over generations and which now, almost for the first time, could be given unfettered expression with near impunity. In these circumstances pressure for higher wages and better conditions was likely to be liberally punctuated with acts of industrial vandalism as well as of cupidity.

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[8] See Alan Walker, *Coaltown: a Social Survey of Cessnock* (1945), and, for a contrary view, C. G. W. Davidson, "Report on the Coal-mining Industry". *Parliamentary Paper* No. 51, Mar 1946, Vol. 1, Section 3.

The severe shortage of coal which developed in the winter of 1943 was aggravated by shipping problems. There was no significant improvement in the coastal shipping position until the end of 1943. Victoria and South Australia were the two States most heavily dependent on imports of coal from Newcastle and, with New South Wales, these States were the centres of munitions production. By May coal stocks throughout Australia were falling steadily, and in June and July stocks continued to fall at an accelerating pace. By mid-July the estimates were that stocks were equivalent overall to five and a half weeks' consumption; in Victoria the figure was three and a half weeks and any further disruption to production and/or shipping would lead to wholesale shutdown of industry. The Coal Commission had in hand a campaign for increased production, but by mid-August it was forced to conclude that the scope for increased output had been exhausted unless there was a rise in the labour force of the mines. There seemed to be no alternative to rationing. For a time rationing was resisted on the grounds that it would be an admission of defeat at the hands of militant coal-miners and might encourage further industrial action. This might have contained an element of truth but the Coal Commission had no room to manoeuvre. Consumption was still too high and was continuing to rise. By mid-September stocks in Victoria were down to less than a fortnight's consumption, a fall aggravated by a shipping strike at Newcastle. Victoria was forced to impose its own rationing on railways and gas production, although at this stage the savings were only 2,000 to 3,000 tons per week.

This was followed swiftly by action at the national level which envisaged more drastic cuts in consumption. On 6th October the Production Executive appointed a Fuel Co-ordination Committee "to consider administrative arrangements necessary to co-ordinate the use of all fuels in the event of an emergency".[9] Before the committee a few days later, Mighell, chairman of the Coal Commission, estimated that current consumption was ahead of production by about 20,000 tons per week and urged an immediate cut in consumption of 40,000 tons—the additional 20,000 tons to allow stocks to be rebuilt to a satisfactory level. He proposed that the railways (with the exception of Queensland) effect a saving of 12,500 tons or twenty-five per cent), that industry reduce consumption by 12,500 tons or 12½ per cent (with the Department of War Organisation of Industry advising on essentiality), that usage for external lighting be reduced by 1,000 tons, and that a technical committee be appointed to lower consumption for electricity and gas manufacture by 5,000 tons. These savings were to be associated with a general economy campaign, including the setting up of "fuel watchers" in industry, which would, hopefully, lead to additional economies of 9,000 tons a week.

The Cabinet accepted the rationing proposals, established a Cabinet sub-committee to overview the coal situation,[1] made the Fuel Co-

[9] Production Executive Minute 376, 6 Oct 1943, on Agendum 97/1943.

[1] This sub-committee comprised the Attorney-General, the Ministers for Supply and Shipping, Labour and National Service, and Transport.

ordination Committee a standing committee of the Production Executive with the task of implementing restrictions on fuel consumption,[2] and adopted a wide range of measures intended to promote production.[3]

The means for increased production combined in unequal measure attributes of the carrot and the stick with the latter in a more prominent position. On 25th July the Prime Minister had made clear that he regarded avoidable stoppage as tantamount to treason, and issued instructions that any interruption to the continuity of work should be investigated by the Commonwealth Investigation Branch and an urgent report furnished to the Prime Minister and the local Deputy Crown Solicitor.[4] The threat of prosecution was repeated with even greater force in October. In August regulations had been amended[5] to enable any question of safety to be referred to the State Minister of Mines, an attempt to avoid disputes on safety grounds and in response to a protracted argument which had originated at Pelton Colliery (Maitland) about the method of extraction of pillars. Curtin announced, in October, that mechanisation of mines would be promoted, although little could in fact be accomplished during the war because of shortage of equipment; an attempt was to be made to find an additional 600 miners as part of the concurrent manpower review; collieries in the south Maitland area would be worked on a two-shifts basis. In return the Prime Minister was prepared to consider a Miners' Federation request for a nine-day Christmas-New Year holiday break on condition that there was a distinct improvement in production. He was also willing to resume the conference with the miners on ways of increasing production, and he announced the appointment of Rowland James,[6] Federal Member for Hunter, as liaison officer between himself and the miners.[7]

The Government then launched a new round of prosecutions and the Attorney-General, in a move to enforce the payment of fines, announced on 21st October that miners' wages would be garnisheed with retrospective effect. But at the resumed conference with the miners on the 26th October Curtin accepted an assurance from the Federation that production would in future be improved, and the commencement of the garnishee regulations was moved to 1st November without restrospective effect. The Opposition and press charged the Government with appeasement, a word which received much more frequent and extravagant use in 1944.

Also flowing from the October conference with the Miners' Federation were further changes to the industrial machinery. The Prime Minister accepted that

> in respect of the Federation the authority of the Local Reference Board shall be complete and that the authority of the Central Reference Board shall cease except

[2] The Fuel-Co-ordination Committee was a large inter-departmental committee headed by Dedman as Minister for War Organisation of Industry. Control of the committee was effectively in the hands of War Organisation of Industry and the Commonwealth Coal Commission.

[3] Full Cabinet decision, 12 Oct 1943.

[4] *Digest of Decisions and Announcements*, No. 61, pp. 30-2.

[5] Statutory Rules 1943, No. 194, 9 Aug.

[6] R. James. Coalminer to 1928; MHR 1928-58; Govt Rep ILO Coal Mining Cttee 1945. B. Lambton, NSW, 14 Jun 1885. Died 4 Jul 1962.

[7] *Commonwealth Debates*, Vol. 176, pp. 557-61.

that in respect of matters affecting the Federation which involve more than one district, these shall be considered by a board composed of a Government nominee as chairman and a representative of the Federation and of the management which, for administrative purposes, shall be associated with the Coal Commission. In respect of the craft unions, the authority and composition of the present Central Reference Board shall continue.[8]

These principles, incorporated in regulations[9] in December, established the Central Coal Authority in place of the Central Reference Board,[1] were an unnecessary and potentially damaging development of the idea of separate and independent industrial arrangements for the coal-mining industry. The principle of separateness could be justified in 1941 on the grounds that the problems of the industry were so individual as to require special machinery. But it was a gross overburden of the same argument to suggest that the difficulties of each coal-mining district were so special as to require the independence of Local Reference Boards. Plainly the intention of the Miners' Federation was to play the decision of one local board against the others, and on this occasion the Prime Minister did leave himself open to the charge of appeasement.

By the end of 1943 it was evident that coal rationing had fallen well below the target of 40,000 tons a week. Most railway systems had not been able to cut their consumption by the planned 25 per cent because of the volume of war traffic; industry had not been able to save 12½ per cent because to do so would have involved cutting such essential activities as food and rubber production; the economy campaign was hampered by advice from the Coal Commission that publicity to reduce domestic electricity and gas consumption should not be countenanced on a large scale until after coal production had increased. Estimates before the Fuel Co-ordination Committee indicated that consumption had been reduced by between 15,000 and 20,000 tons per week which meant that consumption was still slightly ahead of production.

The story of 1944 was almost a repetition of the events of 1943 with one important difference. Coal stocks had been much depleted compared with the beginning of 1943, so the winter coal crisis was much worse than it had been the previous year. In 1944 there was no possibility of allowing concessions to those industries or activities which claimed their usage of coal was irreducible. A heavy reduction in consumption was unavoidable with all its manifold consequences for the war effort, industrial efficiency and everyday civilian life.

The year opened with what appeared to be an important new approach to production policy. In response to a protracted strike at Coalcliff Colliery on the south coast of New South Wales, the Coal Production (Wartime) Bill was introduced on 23rd February. Many of the provisions of the bill were merely formal changes. The Commonwealth Coal Commission was reconstituted as a single Coal Commissioner thus restoring the

[8] *Digest of Decisions and Announcements*, No. 67, p. 4.

[9] Statutory Rules 1943, No. 295, 10 Dec.

[1] A. C. Willis, a former official of the Miners' Federation, was appointed as the Central Coal Authority as effective successor to Judge Drake-Brockman.

position as of August 1941. The substance of the coal control regulations was incorporated in the bill. Mighell was appointed Coal Commissioner when the Act was assented to on 8th March.[2] The main change was that the Commissioner was empowered to take over the operational control of any mine and pay compensation to the owners.[3] This was intended to enable the Commissioner to step in promptly and take charge of a colliery when industrial or technical circumstances warranted such a step. The other important change was that further modification was made to the industrial machinery. Industrial matters were brought within the control of the Commissioner: the Central Industrial Authority and the Local Industrial Authorities (which replaced the Central Coal Authority and the Local Reference Boards) were made officers of the Commissioner.[4] In tacit recognition of the mistake that had been made the previous December, the Local Industrial Authorities were made subordinate to the Central Industrial Authority.[5] Additional powers given to the Commissioner were that he could appoint coal production councils either statewide or covering portion of a state to advise him on any production matter; he could require colliery owners to modify their production techniques; he could make cash advances to owners for mine development; and he could appoint production committees at any individual mine to deal with an industrial or production matter.

When the Act became law the Coal Commissioner took control of Coalcliff Colliery, south of Sydney, the men promptly returned to work, and for a time there was a marked improvement in production in the southern district. On 6th May 1944 the Commissioner took control of Commonwealth Colliery No. 2 in the western district of New South Wales, but on this occasion the purpose was to extend open-cut mining. Again the result was a marked rise in output. But Mighell did not use this power again, and improvement in the south and west was not sufficient to offset the steady decline in production on the northern fields of New South Wales. By mid-1944 production was five per cent below 1943. Consumption had been reduced below the record level of 1943, but stocks were still falling sharply. Strikes were running at a higher level than at any time since 1940. Prosecutions were launched, fines were collected but, as before, this course had little or no effect. The Coal Commissioner was given power to remove miners and officials from the industry, but the task of reliably identifying the source of agitation was almost impossible. The usual round of conferences was tried, but the plain fact was that the Miners' Federation did not have the support of its members. Curtin had borne the brunt of the exasperating task of negotiating with the

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[2] Act No. 1 of 1944.

[3] Compensation provisions were incorporated in separate legislation, the *Coal Mines Profits (Wartime) Act* of 1944.

[4] A. C. Willis was appointed as the Central Industrial Authority. J. Connell, F. Hickman and C. Roy were appointed chairmen of Local Industrial Authorities for the Northern, Southern and Western Districts of N.S.W. respectively.

[5] The Central Reference Board under Judge Drake-Brockman continued in existence but dealt only with matters which affected the craft unions.

Federation. In a moment of desperation at question time in the House of Representatives he declared:

> So much has been said on this subject that there is not much more that I can say. The facts appear to me to be these: The miners not only refuse to respect the wishes and policy of the Government, but they also refuse to respect and heed the advice of their own leaders. A mine is idle today because one locomotive driver in the mine said that another locomotive driver was endeavouring yesterday to put something over him. Circumstances associated with stoppages of that kind cause me the gravest anxiety. They do not arise out of the normal disputes unions have with employers over claims for improved conditions or for higher pay. Frankly, I do not know the basic cause which produces this state of mind. . . .[6]

Whichever way the Government turned, whether to the imposition of severe penalties, to conciliation and concessions, to alterations of the industrial machinery, or to exhortation and the offer of inducement, the end result was still a steady rise in industrial turbulence and decline in coal production.

Nevertheless, further coal rationing was avoided for as long as possible on the old argument that a formal announcement of reduced consumption would amount to a tactical victory to the miners. In May 1944 Evatt as Acting Minister for Supply and Shipping maintained that rationing of gas and electricity for domestic purposes would be avoided "except in the most extreme necessity", but at the same time announced that: consumption of coke for heating during the winter would be restricted to the level of consumption in the summer of 1943-44. This was an effective cut of about fifty per cent. If these voluntary restrictions were adhered to, it was thought that supplies should be sufficient to enable everyone to have "a short warm shower".[7]

Much more drastic restrictions were to apply shortly. By July stocks of New South Wales coal were down to about 600,000 tons or about two and a half weeks' consumption at that time of year. But many of the large consumers held less than seven days' requirements, notably the gas and electricity authorities in Melbourne. Even Broken Hill Proprietary, Newcastle, which had not been seriously affected before, held only eleven days' requirements on 19th August. Further sharp cuts were unavoidable and on 22nd August the Full Cabinet accepted a cut of 30,000 tons per week, the distribution of which was left to a new Cabinet sub-committee[8] and the Fuel Co-ordination Committee. On this occasion the heaviest absolute and proportional cut fell on the metallurgical industries. This group was to reduce consumption by 12,000 tons per week or by 20.7 per cent. The inevitable result was an accelerated reduction in munitions production, and the war programme generally. Beasley, Minister for Supply, even went as far as to suggest that a further review of war commitments with coal rather than manpower as the main constraint. Railways and tramways were to contribute 7,000 tons per week; electricity and gas

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[6] *Commonwealth Debates*, Vol. 177, p. 1065.

[7] *Digest of Decisions and Announcements*, No. 82, pp. 32-3.

[8] Comprising the Ministers for Supply and Shipping, War Organisation of Industry, Munitions and Transport.

utilities 6,000 tons per week (although formal rationing of domestic consumption was avoided again); cement works 2,000 tons per week; and other industries 3,000 tons per week. Thus, Australia entered the final year of war on a planned reduction of coal-derived energy consumption of seventeen per cent compared with 1943.

The restrictions on railway consumption could not be fully enforced because of the drought of 1944-45. Additional transport was required to move large quantities of fodder and livestock. For a time at the end of 1944 it appeared as though even more drastic restrictions would be required. But then in 1945 the decline in New South Wales production was substantially arrested until after the end of the Pacific war. On an Australia-wide basis production continued to decline, but in New South Wales output for the first three-quarters of the year was only down by 1.5 per cent compared with the same period in 1944. Combined production from the southern and western fields was slightly higher than it had been the previous year. As the west and south provided a high proportion of steaming coal required by the railways, the anticipated deterioration in services was avoided—indeed some services were restored, such as the provision of sleeping cars on selected routes. But the supply of gas and coking coal of high quality from the northern fields was sharply curtailed even compared with 1944. This had a marked effect on iron and steel production and on a wide range of associated industries. It should be noted, however, that the bulk of the production decline recorded in 1945 occurred after the war ended, in the final quarter of the year when output was twenty-two per cent below the corresponding period of 1944. This ushered in a phase of even greater industrial militancy on the part of the miners than at any stage during the war.

The shortage of coal was easily the most important material supply deficiency in the final three years of war. The main economic consequences of the shortage were twofold. First, the general over-commitment of resources was aggravated. Because the efficiency of wide sections of the labour force was reduced in both war and civilian industries, the manpower shortage was greater than would have been the case with adequate supplies of coal. Further, the period required to redress the manpower imbalance was much longer than otherwise would have been the case. Second, preparations for reconstruction were seriously retarded. Post-war reconstruction depended on adequate supplies of iron and steel products, building materials and transport. The coal shortage reduced the output of these sectors to well below capacity in 1944 and 1945 and ensured that, together with the partially related manpower problem, little could be achieved in preparation for reconstruction before the end of hostilities.

MINERALS PRODUCTION

The outbreak of the Pacific war had enforced a greater degree of Australian self-reliance in the supply of strategic materials required for munitions production. The most pressing need was for an increase in copper so as to reduce dependence on imports from Africa, but there was

also great urgency in the demand for more tin, tungsten, antimony and minor minerals such as quartz, mica and mercury. At the same time the United Kingdom and the United States sought information about Australia's capacity to meet Allied needs for zinc, tin, tungsten, antimony, zircon, rutile and ilmenite.[9]

The response had been a substantial enlargement of Commonwealth authority over mines and mining. In January 1942 the Commonwealth Copper and Bauxite Committee[1] was reconstituted as the Minerals Committee, under the same chairman, Sir Colin Fraser, but with enlarged responsibility to offer advice on all non-ferrous metals.[2] A Controller of Non-Ferrous Metals was appointed.[3] These were tentative arrangements prior to definition of the controller's authority. In March legal substance was provided by minerals regulations[4] which gave the renamed Controller of Minerals Production sweeping power to "operate, control and direct the production and supply of minerals and for that purpose to take such measures, make such orders, give such directions and do such things as he thinks necessary or expedient". More specifically the controller was empowered to grant financial assistance to mining companies, and for this purpose £500,000 was placed at his disposal, an appropriation which was subsequently increased substantially. He was also authorised to make contracts, employ labour, and co-operate with the States. However, much of the work of the Minerals Production Directorate was performed by State under-secretaries for Mines on delegation from the controller, and the directorate remained one of the smallest components of the Department of Supply.

The tasks before the directorate were, first, to maintain production of base metals at as high a level as possible. Australia was a major world producer and exporter of lead and zinc, and any failure to supply could have affected United Kingdom munitions production. In the case of copper Australia was not a major producer and was slightly less than self-sufficient before the war. But by 1942 consumption had more than doubled and the urgent need was to close the gap between consumption and domestic production. Tin was in a similar category, although the objective in this instance was to increase production for export to the United States in exchange for the tin-plate imported through Lend-Lease. Second, the directorate was required to increase or initiate production of a wide range of minor metals. The most important were wolfram and scheelite for refining to tungsten, a material needed for the hardening of steel for the manufacture of armour-piercing shells. The United Kingdom had lost access to its main source of supply, Burma, and now relied on ore from the Northern Territory and King Island in Bass Strait. Other examples were mica for aircraft production, high grade quartz crystal for radio and

[9] See also Mellor, *The Role of Science and Industry*, Chs 4 and 5.

[1] Set up in May 1941 in the Department of Supply and Development.

[2] Other members were H. G. Raggatt (deputy chairman), A. J. Keast, M. J. Martin, J. M. Newman and J. Horsburgh. M. A. Mawby was technical adviser to the committee on copper production.

[3] J. M. Newman, a mining engineer of wide experience.

[4] National Security (Minerals) Regulations, Statutory Rules 1942, No. 109, 6 Mar.

signals, antimony for hardening of lead in bullets and batteries, and tantalite, source of the rare metal tantalum, which was used in small quantities in surgery because of its high resistance to corrosion. In most of these cases the Controller of Minerals Production took over mining operations from small-scale private enterprise. Government intervention was necessary because operation of these mines would not have been justified commercially. In other instances such as King Island Scheelite and Graphites Ltd. (South Australia), the development of deposits by private enterprise was made possible by substantial Government contributions to capital.

SELECTED MINERALS PRODUCTION

	1939	1942	1943	1944	1945
Antimony & ore (tons)	596	1,360	1,955	893	201
Asbestos (tons)	320	949	687	2,975	4,007
Bauxite (tons)	2,546	3,432	722	3,806	3,437
Copper (tons)	21,408	21,699	25,894	29,365	25,850
Lead (tons)	56,313	42,872	18,463	8,227	6,302
Mica (cwt.)	1,769	4,058	1,732	2,868	3,107
Tantalite (tons)	14	1	13	11	1
Tin & ore (tons)	4,083	3,208	2,905	2,943	2,594
Zinc & conc. (tons)	332,653	315,875	310,119	321,683	280,893

Source: *Production Bulletins.*

Manpower was the central problem facing new and established mining operations. Metalliferous mining was highly susceptible to loss of labour to the Services and munitions production, for many mines were located in remote areas and mining companies preferred fit, young men. By mid-1942 the production of key metals was falling at a time of unprecedented demand. Rationalisation of the gold-mining industry by the Department of War Organisation of Industry gave some relief by means of the transfer of experienced miners from gold to the production of strategic metals.[5] But this source of labour was exhausted by the end of 1942 and the prospect for 1943 was interruption of supply in vital sectors of munitions production.

Manpower for mining was under almost constant consideration between July 1942 and the end of 1943. The Controller of Minerals Production sought power to direct labour to mines, but this met the stiff opposition of Ward, Minister for Labour. Ward's argument was that the power of direction should not be used to assist private companies, and that the controller should continue to use voluntary means in co-operation with the Australian Workers' Union. Early in 1943 the directorate suggested the creation of a Civilian Mining Corps analogous to the Civil Constructional Corps of the Allied Works Council, but the proposal met Treasury opposition. In May 1943 the Full Cabinet approved the use of the Civil Constructional Corps for the provision of additional men at Mount Isa and the payment of a weekly allowance of 21s. in addition to award wages to men

[5] Production Executive Agenda 28/1942 and Supplements, 37/1942 and 66/1942.

who were required to camp at Mount Isa.[6] But this did little to affect the general labour shortage, and in July 1943 the War Commitments Committee accepted that there was an overall deficiency of 1,265 men for strategic minerals production.[7] In October, as part of the general manpower review, the War Cabinet approved the release of 339 fit men for copper production.[8] No specific releases were to be made for other minerals. But by the end of 1943 the need for additional manpower had passed. The Department of Munitions held good stocks of most strategic minerals; and demand fell more rapidly than actual munitions production in 1944 and 1945, and in general labour was sufficient to meet reduced domestic demand.

Copper provides the best example of the vagaries of wartime decision making and the inadequate information on which decisions might be based. Copper was needed in greatly increased quantities to make brass, bronze and other alloys for the manufacture of cartridges and shell cases. Before the war consumption was around 23,000 tons a year and at this level local mines were able to meet more than ninety per cent of domestic requirements. But output from the two major existing mines at Mount Lyell, Tasmania, and Mount Morgan, Queensland, could not be increased significantly for technical reasons, and most of the increased wartime demand was met by imports from South Africa, Portuguese East Africa and Rhodesia. Total imports of copper in various forms increased from a mere 1,442 tons in 1938-39 to 55,318 tons in 1942-43.[9] The level of consumption in 1942 and 1943 was a well kept secret by the Department of Munitions. Cabinet papers mentioned repeatedly that there was a need for 75,000 tons a year at the peak of munitions production,[1] but the papers did not mention that this figure allowed for stock accumulation at the rate of about 20,000 tons per year.[2]

On the assumption that imports would be seriously curtailed, the Copper and Bauxite Committee in 1941 had initiated a search for a new source of domestic supply. In 1942 leases controlled by Mount Isa Mines Ltd, Queensland, were chosen as offering the best potential. But the company's mine was an important lead and zinc producer and development of its copper-bearing lode involved cessation of lead-zinc mining because labour was not available for both operations. The Minerals Production Directorate assisted the conversion by guaranteeing a bank overdraft of £50,000. Production of copper commenced at Mount Isa at the end of 1943 at a rate of 12,000 tons a year with indications of far greater potential. But by this time the output was not needed. The shipping posi-

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[6] Full Cabinet decision, 18 May 1943 on Agendum 491.

[7] War Cabinet Agendum 403/1943, Appendix A.

[8] War Cabinet Minute 3039, 1 Oct 1943.

[9] Compiled from *Overseas Trade Bulletins.*

[1] For example, War Cabinet Agendum 317/1942, 28 Jul.

[2] Figures of wartime stocks of copper in *Commonwealth Year Books* refer to stocks held by commercial firms. Stocks under the control of Munitions were much higher and not included in *Year Books.* In Nov 1944 the Minerals Concentrates and the Minerals Reserve Committee estimated that copper stocks were 43,000 tons. War Cabinet Agendum 562/1944, 16 Nov.

tion had improved, ammunition production was falling, and the Department of Munitions held copper stocks equivalent to almost two years pre-war consumption. In 1944 the Government was obliged to give Mount Isa Mines a guarantee that it would purchase at least 6,000 tons of blister copper from the company on condition that total production from the mine did not exceed 12,000 tons.[3] Thus, the development of Mount Isa as a major copper producer was of greater post-war than wartime significance. What was notable in this instance was the failure of the Department of Munitions and of the Minerals Production Directorate to reveal accurate stock figures until the end of 1944, and the repeated presentation to Cabinet of an inflated rate of consumption. Further, as late as October 1943 the War Cabinet was persuaded to provide additional scarce labour specifically for Mount Isa. The circumstantial evidence points to a determination to press ahead with the Mount Isa development whatever the immediate wartime need.

Production of most other strategic minerals was well maintained and a useful contribution was made to Allied requirements. But this was only achieved by more extensive government intervention in mining than in most other industries and by virtual disregard of the financial consequences. The form of intervention and assistance ranged widely and depended on the technical and financial capacity of the mining company. In some instances the Minerals Production Directorate was entirely responsible for development and production.[4] For example, the small uncommercial antimony ore deposits at Costerfield and Coimadai, Victoria, were developed and operated by the directorate. So, too, were the tantalite projects in Western Australia and the Northern Territory. The declining tin mine at Mount Bischoff was taken over by the directorate and operated for several years at a heavy loss. A capital sum of about £500,000 was provided for the development of the wolfram and scheelite deposits at King Island, although output was disappointing due partly to manpower difficulties. In other instances expert advice was given or arranged. On the initiative of the Deputy Controller of Minerals Production,[5] arrangements were made for the Western Mining Corporation to assist in the development of the pyritic deposits of Norseman Gold Mines, Western Australia. This project was initiated to provide sulphur for the manufacture of superphosphate, but there was considerable danger in working the deposits because of the possibility of underground fires. Similarly, the superintendent of Victorian gold dredging was called in to help the consulting engineers, Alluvial Mining Equipment Ltd, in the development of the tin deposits at Dorset Valley, Tasmania. Such examples could be multiplied.[6] In 1942 and 1943 the directorate was given a comparatively free hand financially, and mines were developed or re-opened at a high cost and

[3] War Cabinet Minute 3901, 21 Nov 144, on Agendum 562/1944.

[4] A Compensation (Minerals) Board was established by Statutory Rules 1944, No. 35, 16 Feb, to compensate owners of resumed mines in the form of royalty payments.

[5] G. Lindsay Clark.

[6] See Mellor, *The Role of Science and Industry*, Ch. 5.

most did not survive the war for very long. The Government's wartime involvement in mining led to the establishment of the Bureau of Mineral Resources and the Australian Mining Council in 1946.

TOWARDS RESTRICTION OF MUTUAL AID

Turning now to broader aspects of supply, it will be recalled that during 1942 Australia and the United States achieved through mutual aid a high degree of supply complementarity. Despite early difficulties and uncertainty about American policy discussed in an earlier chapter, Lend-Lease and reciprocal aid had grown rapidly so that the United States made major additions to Australia's supply of munitions, transport and industrial equipment, and petroleum while Australia provided much of the food, clothing, ammunition, services and installations required by the American forces stationed in Australia.

The volume of mutual aid continued to grow in 1943, notably the amount of reciprocal aid provided by Australia, and it was at this stage that the greatest division of labour was achieved between the two countries. As in 1942 the Allied Supply Council performed a useful function until the end of the war in scaling down some requisitions and promoting others, although after its first year the Council's work was more of a routine character. But all Lend-Lease recipients found negotiations with Washington much tougher in 1943. Improvements in the military situation and in the sterling area's dollar position combined with mounting commercial and political criticism of Lend-Lease within the United States encouraged the Americans to restrict the scope of Lend-Lease as far as possible, and to apply maximum pressure on recipient countries to accelerate reciprocal aid. This resulted in important policy revisions at the end of 1943 and subsequently retreat from the principle of international specialisation between the Allies.

The prelude to the changing American attitude was a request received in Canberra at the end of 1942 for food to the value of $US50,000,000 to be supplied by Australia as reciprocal aid to United States forces stationed in New Caledonia, the Solomons, Timor and perhaps Fiji. Australia was the natural supply base for this area, and the Americans added that, if the Japanese retreated as anticipated, more American troops would be moved to the islands thus reducing the pressure on Australia's resources. But reciprocal aid was formally restricted to "Australia or its territories" by the Australian Note of 3rd September 1942, although a qualifying clause provided for exceptions in mutually agreed instances. The Government had already shown some willingness to apply this restriction flexibly by consigning a small quantity of blankets to New Caledonia. The implications of this new request were, however, quite different, particularly if there was to be a large build-up of American forces in the South-West Pacific Area. On the other hand refusal could jeopardise the continued flow of Lend-Lease, so War Cabinet decided to agree to the request in principle subject to determination of the country's physical

capacity to supply, and reconsideration of financial liability in the event of any formal relaxation of the geographical limitation on reciprocal aid.[7]

In the event this modest liberalisation of the limits on reciprocal aid was of minor significance. The Americans, surprisingly, did not take advantage of the Australian offer on any scale. The reason is obscure but appears to have been due to lack of consultation between the American authorities. The original request came from the United States Army Services of Supply attached to General MacArthur's headquarters in Brisbane, and Australian officials assumed that the Office of Lend-Lease Administration (OLLA) or the State Department was behind the move. But when asked by the War Cabinet to find out whether the Americans wanted a reconsideration of the September 1942 agreement, the Australian Minister in Washington, Sir Owen Dixon, was unable to obtain a precise answer. Dean Acheson, Assistant Secretary of State, undertook to investigate but at the same time a Congressional enquiry on Lend-Lease was under way and OLLA wanted to avoid any publicity about the geographical restriction that had been imposed on reciprocal aid. The whole matter was therefore shelved until 1944 when the question of geographical limits on reciprocal aid was reopened during the negotiations on Stage II, that is the period expected between the defeat of Germany and the defeat of Japan.

There was no lack of purpose in the United States Government's initiative taken in mid-1943 to modify substantially both sides of mutual aid. With one eye on post-war trade and the other on public opinion, the Administration pressed the United Kingdom into discussion of three interrelated reciprocal aid matters: (1) the publication of the value of reciprocal aid supplied by the Empire; (2) the supply of raw materials from the sterling area as reciprocal aid; and (3) the state of the Empire's gold and dollar balances. At about the same time OLLA announced without prior discussion that the Lend-Lease supply of tobacco leaf for civilian requirements would be discontinued, and that the eligibility of other "essential" civilian goods was being re-examined.

These moves can only be understood against the background of the United Kingdom's improved dollar position brought about by the growth of American military expenditure in the sterling area after Pearl Harbour. As noted in the earlier chapter, the *Lend-Lease Act* was designed to keep Britain solvent but the Americans were reluctant to allow her any margin of financial security. British officials pointed out that the rise in dollar holdings was more than offset by the enormous growth in United Kingdom indebtedness to the rest of the sterling area—particularly to India and the Middle East—and that there had been no net financial recovery. But the Americans refused to admit the problem of the sterling balances believing it to be a matter for "internal" settlement.[8] In the Anglo-American discussions of May-July 1943 attention was therefore focused on ways of

[7] War Cabinet Minute 2507, 7 Dec 1942.
[8] See R. S. Sayers, *Financial Policy*, Ch. XIII.

restricting United States cash commitments in the sterling area by extending the scope of reciprocal aid.

The solution proposed by Washington—the transfer of raw materials from cash purchase to reciprocal aid—was accepted by London on behalf of the United Kingdom and Colonies with only minor hesitation, for the United Kingdom Government believed that this concession was essential to make the continuation of heavy appropriations for Lend-Lease more acceptable to Congress. A "Report on Lend-Lease Operations" was due for presentation in August 1943, and the President believed that more favourable publicity about reciprocal aid was necessary to extract a satisfactory response from the political machine. It was for this reason also that Washington renewed efforts to have the United Kingdom prepare and publish global figures of the amount of reciprocal aid that had been provided. Regular publicity had been given to Lend-Lease figures, but no reciprocal aid estimates had been prepared to help convince the American people that Lend-Lease was other than a massive free loan to the Allies. In 1942 the British had opposed the collection and publication of such estimates for the sound reasons that the clerical manpower involved would be a waste of resources, that dollar-counting would be encouraged, and that this would stimulate the idea of a permanent war debt. These points were still valid in 1943 but London now felt that publication of a "White Paper on Mutual Aid", with reciprocal aid figures much more respectable than a year earlier, would demonstrate that mutual aid was now a reality and that substantial progress had been made towards "a general pooling of resources". After unexpected hesitation in Washington[9] the White Paper was published with the President's blessing on 11th November 1943.

As a result of these modifications Australia, India and the other Dominions were subjected to strong pressure from both London and Washington to follow the United Kingdom's lead on raw materials. But Australian officials were convinced that the British tactics were hopelessly idealistic. The Division of Import Procurement in particular had become thoroughly disillusioned with the instability of Lend-Lease administration, and doubted whether any gesture by extension of reciprocal aid would influence the United States one way or the other. Further, advice received in Canberra indicated that Lend-Lease administration and policy was due for major overhaul and that the outcome would be further limitations on eligibility. When the War Cabinet formally rejected the United States request for an extension of reciprocal aid to include base metals, tallow, hides, fatty acids, livermeal and a number of scarce metals, the explanation was that the "Commonwealth Government feels that these commitments are so great and our manpower position so acute that Australia has reached the practical limits of the contribution it can make by way of Reciprocal Aid".[1] As Washington countered logically, the transfer from cash purchase to reciprocal aid did not involve any additional manpower resources. The implications were purely financial. But the Government

[9] Sayers, *Financial Policy*, pp. 422-6.
[1] War Cabinet Minute 3114, 19 Oct 1943.

was now sufficiently wary of the Americans to believe that a decision in principle would lead to endless additional requests which would be difficult to resist. The decision also reflected a savage and exaggerated reaction from Australian War Supplies Procurement in Washington, after the receipt of disappointing news, that the "United States was shameless in its disregard of Allies when making decisions . . . which have great economic repercussions on these countries and that acquiescence in the raw materials issue would have no influence on United States policy decisions which were becoming more and more unilateral".

Australia's scepticism about the public relations value of the United Kingdom's raw materials offer was confirmed within a few days of the War Cabinet's decision. At the end of October advice was received in Canberra from several sources that the Office of Foreign Economic Administration (FEA)[2] proposed to eliminate capital goods from eligible Lend-Lease goods, and then on 13th November the Secretary of State cabled that:

> Effective November 15, 1943, the following categories of items heretofore obtained on requisition filed with the Lend-Lease Administration will be furnished to the British Empire *only for cash* (preferably through ordinary commercial channels unless in special cases procurement difficulties necessitate the use of Lend-Lease cash reimbursement procedures):[3]
>
> (A) Projects of a permanent nature;
> (B) Machine tools;
> (C) Materials and equipment for the production and refining of petroleum excluding drum sheets and pipe lines for direct military use;
> (D) Industrial equipment;
> (E) Portable electric and pneumatic tools.

There had been no prior consultation about the effects of this decision and for a few weeks a serious rupture of relations threatened between the Division of Import Procurement and FEA. When tempers had cooled in Canberra it was realised that for a number of reasons the significance of the decision was less than at first suspected. First, the ruling applied to items of non-military significance and was not intended to exclude equipment required to continue the war effort. The decision reflected the sensitivity of FEA to American commercial interests who feared that the continued supply of capital goods with a post-war productive potential threatened the expansion of American international trade after the war. Second, it was found that FEA was prepared to consider exceptions, and that a flexible approach would be adopted in connection with items such as refrigeration equipment which had a dual military and civilian capability. Third, most industries which depended on the supply of capital equipment Lend-Lease, with the important exception of the rural sector, had been fully tooled up by the end of 1943. Indeed, the problem in most industries was manpower not equipment. Fourth, at the time of the ruling,

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[2] In a Presidential directive of 25 Sep 1943, OLLA was abolished and merged with the Office of Economic Warfare and the Office of Foreign Relief and Rehabilitation to form FEA. The actual task of reorganisation took some time and, combined with changes in the personnel of Lend-Lease administration, this added to the confusion and uncertainty about the direction of United States policy.

[3] Italics added.

the sterling area's dollar pool was sufficiently healthy for most important items to be obtained by cash purchase through ordinary commercial channels. Most observers agreed that the real importance of the 15th November ruling was that it foreshadowed further drastic limitations on Lend-Lease eligibility which would have much greater military and economic significance.

In Australian eyes the capital goods announcement endorsed their view that Washington would not be placated by an extension of reciprocal aid. The British, however, were still optimistic. In a cable on 28th October, the Dominions Office argued that "This is just the kind of development we should hope to be able to avoid in future if we can . . . lift our relations on the whole Lend-Lease and reciprocal aid front on to the broad plain of common pooling of resources". Pressure was still being applied by both London and Washington for the Australian Government to reverse its decision on raw materials, but the British argument was less and less convincing as evidence accumulated that more restrictions on Lend-Lease were in train. Indeed, it was clear that London was using the ideal of a "common pooling of resources" for propaganda purposes and that this was being employed to help persuade Australia and other Dominions to shoulder more of the reciprocal aid burden. Thus the Government was not impressed by a strongly-worded aide-mémoire handed to Sir Owen Dixon by Dean Acheson on 14th December which urged reconsideration of the raw materials decision on the grounds that no new manpower resources would be involved and that there would be no unlimited escalation of Australia's commitment because separate requests would be submitted for each commodity and that Australia would have the full right of refusal. In January 1944 the War Cabinet accepted the Treasurer's view that its original decision should stand.[4]

Confirmation that more American restrictions were on the way was soon forthcoming. On 7th January 1944 FEA sent a note to the British Ambassador in Washington indicating that the United States Government wanted the following "questionable items" removed from Lend-Lease:

(a) Shipments of capital goods such as machinery installations;
(b) Off-shore purchases such as Icelandic fish, Caribbean sugar, oil from outside the United States;
(c) Civilian goods for the Middle East;
(d) Pulp and paper;
(e) Tobacco for the Armed Forces;
(f) Certain other controversial items, such as rent or charter of vessels, agricultural machinery and other types of equipment which have a relatively long life.

On this occasion, however, FEA followed an undertaking given after the 15th November episode and invited discussion about the details of the "Crowley List"—named after Leo Crowley, head of FEA. Once more FEA policy appeared more truculent than proved to be the case. The

[4] War Cabinet Minute 3271, 24 Jan 1944.

British Supply Council thought that the list had been hastily constructed for political flag-waving without much thought having been given to the details, and this turned out to be an accurate assessment. The Americans were most concerned about items (a) and (b) and the British representatives decided to agree to the elimination of these in the hope that the Americans would be generous about the rest.

No early clarification followed. After two months of discussion a Division of Import Procurement memorandum reported in March 1944 that:

> The present outlook is most uncertain and it is not possible at this stage to make any reasonable assessment of the effect which the present trend towards the restriction of Lend-Lease may have on Australia's financial position. Proposals are put forward one day and withdrawn the next. A firm decision given one week may be withdrawn or substantially modified the next. Every effort is being made to overcome these difficulties and to ensure that changes dictated by political expediency do not hold up the flow of essential supplies to Australia.[5]

What eventually emerged was that the capital goods decision was quite firm and would be administered rigidly with very few exceptions admitted. Indeed, in March Canberra was advised that FEA proposed to establish an inventory of Lend-Lease machine tools in Australia and instructed that any machine should be returned to the Foreign Economic Administration Mission in Australia if it had been idle for a period of sixty days and that if any machine was required subsequently it would be supplied on payment in cash.[6] FEA was also firm about supplies for essential civilian requirements. Textiles for non-military end-uses were eliminated in March,[7] as were building and construction materials. In effect, all civilian goods with clear-cut civilian end-uses were taken off Lend-Lease by March-April 1944. By far the most difficult items were petroleum products obtained from American sources in the Caribbean. Most of Australia's supplies were obtained Lend-Lease, and then pooled for division between the United States forces, the Australian forces and the civilian ration. The United States forces obtained their requirements on reciprocal aid, so that any transfer to cash purchase would have upset petroleum supply arrangements and have had serious financial repercussions. The petroleum question was the subject of intensive negotiations through most of 1944 but in the end FEA did not force the issue and Lend-Lease supplies continued.[8] On the other hand wood pulp for paper manufacture was declared ineligible in May 1944 on the grounds that supplies were available from Canada, FEA invoking the stipulation that sources from within the Empire should be exploited before Lend-Lease became available.

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[5] "Trends in United States Lend-Lease Policy", 21 Mar 1944.

[6] The sixty-day clause was subsequently waived and a system of *post facto* reporting accepted. Also, the cash-payment clause was deferred for consideration at the time of final settlement.

[7] Textiles were the most important civilian items and the transfer to cash was estimated to cost $US25,000,000 in 1944.

[8] As from 1 Oct 1944 the United States introduced new arrangements to supply their forces in forward areas direct rather than via Australia so Lend-Lease imports of petroleum fell substantially thereafter.

No clear summary can be given of what was a thoroughly confused situation on the eve of the Stage II negotiations which began in September 1944. To be sure, Lend-Lease imports were thirty per cent lower than they had been a year before, but the fall was primarily in munitions (a reduction of fifty per cent) and not in those commodities about which so much heat had been generated. The fall in munitions was due to the fact that Australian capacity was now equal to demand for all except more sophisticated equipment, and also because an increased proportion of American requirements was obtained direct. It is true that dealing with the United States Administration was a wearing and frustrating experience. Australian officials were particularly irritated by the instability of decisions which sprang from the Administration's political tenderness to the frequently ill-informed criticism of the Lend-Lease programme, and the many changes in the top executives of OLLA and FEA. All this made Australian War Supplies Procurement and the Division of Import Procurement feel that continuity of supply was in jeopardy. The psychological pressure from Washington left its mark even though supplies of most items were in fact well maintained. At the same time the exaggerated and suspicious reaction of Australian officials to any American initiative aggravated the deterioration of relations between Canberra and Washington on the subject of mutual aid. The sorties against Lend-Lease cuts led by A. C. Moore, Director of the Division of Import Procurement, were notable more for aggression than diplomacy. Moore had little patience with the idiosyncracies of the American political machine, and in a long series of "domestic" cables between Canberra and Australian War Supplies Procurement gave full vent to his spleen. The content of these cables was not unknown to FEA. In a comment on the situation a Treasury official wrote in July 1944 that:

> The methods used by Australia are too much of the "sledge hammer" type whereas if the case is presented in less forcible language, it would occasion less comment. The verbiage used in some Australian cables is not by any means diplomatic and apparently their actual contents have become known to FEA.

Further, there were occasions when Australia came close to threatening retaliation in the form of a reduction in reciprocal aid if FEA did not accept Australia's point of view. When Chifley, the Treasurer, issued a strong directive that no threats of any kind should be made, Moore, in defence, claimed that his division had only ever pointed out to the Americans that a restriction of Lend-Lease might affect capacity to supply reciprocal aid, as in the case of petroleum. Explicit threats were not necessary for Washington to take offence.

Behind the aggressive administration of the Division of Import Procurement lay a strong feeling that the scale of Australia's reciprocal aid commitment was out of proportion to total aid from the Empire and to the country's capacity to supply. Since mid-1942 the growth of reciprocal aid expenditure had been viewed with alarm, increasing from about £3,000,000 a month in June 1942 to £6,000,000 a month in June 1943 to

£10,000,000 a month in December 1943. This increase paralleled the growth in the size of United States forces in Australia. Consistent estimates of the size of United States forces in Australia are not available from Australian sources, but the following figures indicate the extent of the increase between June 1942 and December 1943:

Jun 1942	88,569	in Australia
Dec 1942	106,388	in Australia
Jun 1943	178,207	in Australia
Dec 1943	323,476	in South-West Pacific Area.

By December 1943 there were about one-quarter of a million Americans stationed in *Australia and its territories*, about double the number of a year before and more were expected to arrive in 1944. In 1943-44 reciprocal aid expenditure absorbed 22.7 per cent of total war expenditure and 8.6 per cent of net national income; for a time at the end of 1943 the money value of reciprocal aid exceeded that of Lend-Lease.

It was this situation which prompted a re-examination of reciprocal aid procedures by the Treasury early in 1944. In principle these procedures had remained unaltered since 1942. There was no centralised screening authority except that Treasury exercised a general financial oversight and was responsible for policy matters. Except for capital works and certain munitions items over which the War Cabinet retained direct control, American requests were submitted to the responsible department or authority, most commonly the Departments of Supply and Shipping, Munitions, and Commerce and Agriculture. These departments considered each request against the criterion of capacity to supply so that decisions were based largely on conditions within individual industries and on other technical factors affecting supply. The lack of machinery to assess the overall burden of reciprocal aid was in the judgment of the Treasury a serious weakness in the Government's programme to balance the Australian war effort. In a paper submitted to the War Cabinet in March 1944,[9] Chifley argued that the manpower review of the previous October resulted *inter alia* in a directive from the Prime Minister that the "whole field of goods and services for the United States forces" should be examined by the Production Executive and the War Commitments Committee.[1] So far reciprocal aid had escaped examination. Chifley proposed the creation of a central authority under the Production Executive through which United States demands should be lodged and examined. As illustrations the Treasurer cited food and munitions for which over-acceptance of United States requisitions had aggravated the manpower shortage for essential civilian needs.

In principle these arguments were logical and convincing. They were in substance similar to those which had led to the creation of the War Commitments Committee a year earlier. But the Department of Supply, as the

[9] War Cabinet Agendum 75/1944, 11 Feb; considered first on 6 Mar, deferred to 20 Mar, and to the Full Cabinet by War Cabinet Minute 3383. Considered finally on 4 Apr by the Full Cabinet through Agendum 633.

[1] Prime Minister to Minister for War Organisation of Industry, 5 Oct 1943.

handling authority for a large proportion of reciprocal aid requisitions, regarded the proposed central authority as a direct attack on its jurisdiction. It was the old story of a specialist department insisting that it knew its own business and believing that it was the best judge of how national policy objectives should be interpreted. The conflict was sharpened on this occasion by the fact that Supply had marked out for itself an important post-war economic function, and the matter was pursued with surprising vigour through an inter-departmental committee and several meetings of the Full Cabinet. The inter-departmental committee[2] headed by Keane, Minister for Trade and Customs, rejected without qualification the claim that an officer of Supply alone should determine the availability of capacity to meet United States demands, and found

> The conclusion . . . inescapable that there should be some central screening of United States demands to ensure that . . . in addition to the availability of resources for individual demands consideration should be given to the general aspects of manpower and material resources, to the links with general Lend-Lease policy, and the effect on the Australian economy.[3]

Despite the logic of this view the issue was resolved to the satisfaction of neither party. The Full Cabinet directed on 10th May that "final and absolute authority to approve expenditure in respect of [reciprocal aid] projects, supplies and services should be vested in the meantime in the Treasurer who would consult other Ministers when he deemed it necessary".[4] In effect Treasury's hand was strengthened in that it could now exercise detailed financial control over the full range of reciprocal aid expenditure. While this went some way towards meeting the need for more effective co-ordination, the proposed reciprocal aid committee was not approved and the task of examining systematically the use of real resources for reciprocal aid was not attempted. And although its wings were clipped the Department of Supply retained effective control over general supplies for the United States forces.

The reasons for the Full Cabinet's reluctance to arbitrate on this issue remain uncertain, but it is probable that Treasury's initiative was too late to be successful. By May 1944 it was clear that the bulk of additional United States forces in the South-West Pacific Area would be deployed north of Australia and its territories and that reciprocal aid expenditure was unlikely to grow as in 1943. The supply of certain items such as foodstuffs remained critical but the general supply crisis that had been predicted had not materialised. Further, with the end of the war in sight Cabinet was reluctant to add to the already impressive array of co-ordinating apparatus much of which had not been effective.

Note must also be taken of generous mutual aid assistance received from the Canadian Government between November 1943 and the defeat

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[2] In addition to the Minister for Trade and Customs, the committee comprised representatives from the Departments of the Treasury, Supply and Shipping, Munitions, Aircraft Production, Labour and National Service, War Organisation of Industry, and the Controller-General of Food.

[3] The committee's report is attached to Full Cabinet Agendum 633A, 10 May 1944.

[4] Full Cabinet Agendum 633A.

of Japan. To help relieve the shortage of Canadian dollars, Canada passed a *Mutual Aid Act* in May 1943 which established a fund of $1 billion to "contribute, exchange, deliver, transfer title to or possession of, or otherwise make available [approved goods and services] to any of the United Nations other than Canada". Implementation of the scheme did not follow immediately because of delay in developing administrative machinery. There was also a minor hitch about an article in a draft agreement on mutual aid principles which required "the reduction of tariffs and other trade barriers" after the war.[5] But the Canadians accepted a compromise formula without much fuss and an Australia-Canada Mutual Aid Agreement was signed on 9th March 1944.[6] The substance of the Agreement was that Australia received aid up to a limit determined by the deficiency in Australia's balance of payments with Canada. In other words, Australia's bilateral trading deficiency with Canada was covered by mutual aid; if requisitions were made in excess of this amount, estimated at the commencement of mutual aid, Australia was required to pay cash for them.

Canadian mutual aid began to flow, however, well before all formalities were completed, and the first imports were received in Australia at the end of October 1943. A large proportion of aid was granted in the form of the Canadian Government meeting the whole cost of training Australian airmen in Canada under the Empire Air Training Scheme, but mutual aid imports from Canada covered a wide range of goods from aircraft, motor vehicles and merchant vessels to lumber, pulp and paper, electrical equipment and asbestos. Canada also covered the freight attracted by mutual aid imports carried in Canadian ships. The total amount of aid granted to Australia amounted to Canadian $91,325,000 (about £25,700,000) and was distributed as follows:

	Canadian $
Empire Air Training Scheme	28,000,000
Transport Equipment	20,400,000
Aircraft and Parts	12,500,000
Munitions	1,300,000
Industrial Equipment	6,800,000
Raw Materials and Food	13,400,000
Freight	7,600,000
Miscellaneous	1,300,000
Total	91,300,000

Because of the effect on international commodity markets, aluminium and nickel were specifically excluded from mutual aid.

The Canada-Australia Agreement also provided for reciprocal aid to be provided if required but it was acknowledged at the outset that this was for political window-dressing and aid was in effect granted without strings. A small amount of reciprocal aid was granted by Australia from time to time, but the amounts involved were insignificant.

Although Canadian mutual aid was small compared with Lend-Lease,

[5] War Cabinet Minute 3234, 21 Dec 1943 on Agendum 496/1943.
[6] Outline of the Agreement is in *Commonwealth Year Book*, No. 36, pp. 336-8.

the aid that was received was of considerable material and financial assistance at a time when increasing restrictions were being imposed on Lend-Lease "eligibility". When items such as wood pulp were eliminated from Lend-Lease in mid-1944, it was found possible to transfer requisitions from Washington to Ottawa thus saving the sterling area precious dollars. Further, the Canadians were not nearly as sensitive as the Americans to requisitions for capital equipment, and mutual aid imports of machine tools, electrical equipment and agricultural machinery continued until the end of the war. Several merchant vessels were also obtained and ultimately acquired by Australian shipping interests. Although comparatively unsung at the time and since, Canadian mutual aid in relative terms was at least as impressive as Lend-Lease.

MUTUAL AID IN STAGE II

By mid-1944 the European military situation had improved sufficiently for the Allies to predict the defeat of Germany by the end of the year. In July therefore both London and Washington began preparations for a reconsideration of Lend-Lease arrangements for Stage II, the period between the fall of Germany and the fall of Japan. Lend-Lease exports to the United Kingdom would inevitably be reduced during Stage II, but London was anxious to ensure that Lend-Lease supplies were maintained at a level sufficiently high to allow a measure of urgent domestic reconstruction and relief, and some recovery in British export trade. Attention was to be focused on relaxation of the United Kingdom Government's Export White Paper of September 1941 which prevented British export of Lend-Lease goods or commodities which contained components which had been supplied Lend-Lease.

At the Second Quebec Conference between Churchill and Roosevelt between 13th and 16th September 1944 the British case was presented in general terms, but military matters were of prime concern and there was no time for detailed consideration of the future of Lend-Lease. Nevertheless the President agreed in principle (i) that the level of Lend-Lease supplies should be about seventy-five per cent of the 1944 figure in the first year of Stage II, falling to sixty per cent in the second year (on the assumption that two years would be required to defeat Japan after victory in Europe); and (ii) that there was a need to relax the limitations on Britain's export trade imposed by the Export White Paper. The United Kingdom had thereby secured acceptance of their case that Lend-Lease should be used (indirectly) to assist the initial stage of British post-war economic recovery. A joint Anglo-American committee was formed to work out the all important details, with Lord Keynes leading the British delegation and the United States Secretary of the Treasury, Henry Morgenthau, the American. Australia was not directly represented, for it was agreed that Keynes should negotiate for the British Commonwealth as a whole. However Australia's needs were given full consideration by the committee and were submitted through Sir Frederic Eggleston, Australian Minister in Washington, L. R. Macgregor, Director-General of Australian

War Supplies Procurement, and W. E. Dunk,[7] Director of Lend-Lease Finance in the Treasury;[8] the separately identified Australian submission emerged as a chapter of the British paper.

When detailed negotiations commenced in Washington in October the Americans were found to be in a conciliatory mood. There was no escaping the hard bargaining on figures, particularly ones dependent on unpredictable military events. But there was far greater appreciation of the United Kingdom's desperate economic situation which had been furthered by an unexpected understanding between Keynes and Morgenthau.[9] The United Kingdom found that the substance of its case was accepted: the munitions programme (which included Australia's submission) was agreed to with only minor qualification;[1] the conditions of the Export White Paper were substantially relaxed; the Americans agreed that there was a need for some rebuilding of the United Kingdom's external reserves. The Australian case, also cheerfully accepted, was that the defeat of Germany would make little difference to Australia and that Lend-Lease should continue to flow as before. The overall non-munitions request of $US111,788,000[2] was made subject only to the usual provisions, such as the availability of Congressional appropriation. A matter of some concern to the Australians was that munitions (other than aircraft), petroleum and shipping were to be obtained through the British Supply Council. Formally this had always been the case, but the Australian Government felt that as a result of the reinforced British control Australia might have a struggle to obtain sufficient supplies of petroleum and shipping.

The Americans, however, did expect generosity to flow in both directions and from the outset of the Stage II discussions it was clear that some modification of reciprocal aid arrangements would be required. One ill considered proposal was to make supplies of Lend-Lease munitions dependent on the United Kingdom underwriting reciprocal aid from all Commonwealth countries, but the political and financial impossibility of such a scheme was soon appreciated. But Washington was determined to break down the geographical restraints imposed by Australia (and New Zealand) on reciprocal aid. The logic of the war situation demanded some modification. The major air and naval attack against the Japanese around the Philippines began in September 1944; by the end of October the landing on Leyte had been completed; the final stage of the war against Japan was well under way. At the same time United States forces were moving steadily out of their Australian bases and the demand for most reciprocal aid items was falling. In the circumstances, the War Cabinet had little difficulty in accepting the American request for supplies to be made avail-

[7] Sir William Dunk, CBE. Auditor C'wealth Bank London 1934-38; Asst Secty Treasurer (Spec War Services) 1939-45; Secty Dept Ext Aff 1945-47; Chmn C'th Pub Serv Bd 1947-60; Commnr Brit Phosphates and Christmas Is Phosphates 1962-70. B. South Australia, 11 Dec 1897.

[8] Senator Keane was also in Washington for part of the negotiations.

[9] R. F. Harrod, *The Life of John Maynard Keynes* (1952), pp. 507-8.

[1] This was that the United States would not specify in a formal document the amount of Lend-Lease it would provide. The British feared, correctly as it turned out, that month to month bargaining would be required to obtain shipments.

[2] Made up as follows: Food $US7,814,000; Raw Materials $US52,719,000; and "End Products" $US51,255,000.

able for the Philippines campaign.[3] A few weeks later Washington asked for authority to transfer reciprocal aid goods to forward areas without restriction and this was also granted. But the War Cabinet was not prepared to relax unconditionally the geographical rule; specific requests would be considered sympathetically but no general undertaking would be given.[4] Indeed, the Government provided aid in a number of forward areas in addition to the Philippines, but the continued inadequacy of overall Australian supplies of food prevented any general relaxation.

Further discussion of relaxing the limits on reciprocal aid was quashed abruptly early in 1945 by strident criticism from several sources, largely from within the bureaucracy, of the Americans' use of reciprocal aid supplies and storage accommodation. After a meeting of the Joint Administrative Planning Sub-Committee, formed to assess Australian capacity to meet the needs of British naval forces whose arrival was imminent, the Defence Committee concluded on 15th December 1944 that

> the retention of storage accommodation on the mainland of Australia by the United States Forces appears to be to accommodate Australian supplies (principally food) provided under Reverse Lend-Lease, which the United States Forces continue to procure and the Australian authorities to supply, despite the lack of shipping to carry the large accumulation of supplies to the areas where the United States Forces are now concentrated.[5]

This was followed by complaints from General Blamey that the United States forces were being favoured in the supply of food, materials and equipment at the expense of the Australian Army, and that many of the items supplied to the Americans were not being fully used. There was substance in these claims and they were confirmed subsequently in a report[6] to the Acting Minister of Defence[7] by the Quartermaster-General.[8] The main problem was shipping. Most of the American shipping that had serviced the Australian coastline had been diverted to the direct run from the United States to operational areas, although of course this did not explain the unnecessary and wasteful accumulation of stores. More effective co-ordination of the several supplying agencies (perhaps along the lines of the Treasurer's proposed reciprocal aid committee of early 1944) might have lessened the problem, but behind the appearance of bureaucratic bungling lay the realities of Lend-Lease politics. Any explicit reduction of reciprocal aid was out of the question for reasons that will emerge shortly. The reaction of the Treasury, the department most closely concerned with the financial side of the reciprocal aid, was to stonewall and hope that the matter would fizzle out. (Treasury judged correctly that the Army's complaint was more generally based on the manpower contraction that had been enforced on it during 1944 and that in time bruised feelings would mend.) This tactic proved to be successful and a specific

[3] War Cabinet Minute 3874, 21 Nov 1944. At the same time the War Cabinet deferred a request for supplies at an unspecified future date for the Netherlands East Indies.
[4] War Cabinet Minute 3965, 15 Dec.
[5] Defence Committee Minute 408/1944, 15 Dec.
[6] War Cabinet Agenda 190/1945, 4 May and 192/1945, 5 May.
[7] Senator J. M. Fraser.
[8] Major-General J. H. Cannan.

reference to the War Cabinet was avoided. In correspondence during February 1945, however, Curtin successfully urged MacArthur to rationalise his use of Australian supplies and facilities so that accommodation of the Royal Navy would be possible.[9]

All Lend-Lease recipient countries found the early months of 1945 a more than usually difficult and uncertain period. The delay in the defeat of Germany beyond the end of 1944 created a hiatus in formal Lend-Lease arrangements and some pessimists forecast that the struggle would go on indefinitely. The optimism that followed the Keynes-Morgenthau agreement did not last long, for FEA embarked on its usual spring cleaning preparatory to the annual Congressional review and tightened up on eligibility. In March the *Lend-Lease Act* was renewed without difficulty as it always had been but, with the defeat of Germany imminent, Congress amended the Act to prevent the President approving Lend-Lease "for post-war relief, post-war rehabilitation, or post-war reconstruction". The tag was not new in principle: Lend-Lease had always been "for the defense of the United States" and the inclusion of non-munitions items had always presented problems for the Administration. The amendment meant that Lend-Lease requisitions were likely to be examined even more thoroughly in future. Then in April President Roosevelt died and the Allies lost their most powerful friend and advocate; the views of the new President were unknown but were likely to be much more in line with those of Congress. Finally, the Provisional Governments of France, Belgium and the Netherlands were added to the Lend-Lease "gravy-train" in the first half of 1945,[1] so there were more claimants to share in a reduced appropriation.

A steady decline in the flow of Lend-Lease was, therefore, inevitable and Australian policy was directed towards preventing more drastic unilateral revision of the Keynes-Morgenthau agreement. If the Army's criticism of reciprocal aid had been made known to senior FEA executives, the Treasury believed that Lend-Lease could be written off as an instrument of Stage II strategy. In the event Australia was treated fairly in 1945 and the Americans were as good as their word in that they recognised the country's importance in the Pacific theatre. To be sure, the supply of most non-munitions items was reduced to minor proportions, although supplies of such essential goods as tin-plate, tyre fabric, tractors and, to a less extent, petroleum were reasonably well maintained. Munitions imports were also reduced except that the United States continued to provide large quantities of aircraft and parts for the R.A.A.F.'s ambitious equipment programme. (The rise in Lend-Lease munitions for 1945 recorded earlier was due entirely to aircraft.) But a high price was paid for these concessions. Reciprocal aid in 1945 (even though about one-third below the record level of 1943-44) absorbed a rising proportion of war expenditure. More important was that the requirements of the United States forces shifted markedly during 1944-45 from munitions,

[9] War Cabinet Agendum 86/1945.

[1] These three countries were declared eligible for lend-lease in 1941 (in the case of France, territory under the French National Committee) but in practice aid was not provided until liberation.

construction and services (for which some manpower was available) to foodstuffs (for which there was a desperate shortage of labour and equipment). To an important degree, therefore, mutual aid during the final year of the war aggravated the shortage of essential supplies and delayed the "rebalancing" of the Australian economy.[2]

[2] Lend-lease settlement is considered in Ch. 20.

CHAPTER 17

SHIPPING AFTER THE CRISIS

THE story of shipping after the crisis of 1942 is one of gradual improvement in the volume of tonnage available for coastal traffic, a change which was largely negated by deterioration in the rate of turn-round of ships. In 1943 there was little addition to the number of ships available to the Shipping Control Board, and any easing of the position derived from better organisation through the creation of the Directorate of Shipping and the development of an effective cargo priority system by the Department of War Organisation of Industry. From the beginning of 1944, however, available tonnage increased at the same time as the volume of essential cargo fell, so that by the middle of that year Sir Thomas Gordon, Director of Shipping, found it necessary to spread available freight between the ships under his control. Elements in the improvement were the reduction in damage by enemy action, the elimination of convoys, the shipment of American war supplies direct to forward areas, launching of the first "River" class vessels, additional shipping made available by the British Ministry of War Transport, and reduction in the volume of war production, including coal. But much of this was undone by a sharp increase in the length of time ships were required to remain in port, so much so that a return to the crisis conditions of 1942 was, with some exaggeration, predicted. Explanation of the decline in efficiency on the waterfront defies simplification, but there were parallels with the position on the coalfields: poor docking and handling equipment, inferior working conditions, shortage of labour in the face of excess demand, the need to handle a great diversity of ships, excessive hours of work, the easing in 1944 of the military threat and uncertainty about the post-war employment position. All these encouraged union militancy and slow working. An important additional element in the growth of port congestion was a substantial wartime increase in the cargo-carrying capacity of ships which, as explained below, forced them to spend more time in port. Thus the character of shipping administration changed radically in the final two years of war, with the centre of the stage occupied by the Stevedoring Industry Commission, and to a less extent the Maritime Industry Commission and the Port Equipment and Development Committee.

THE SUPPLY OF SHIPPING

Few immediate results could be expected from the centralisation of shipping administration in the newly-created Department of Supply and Shipping in October 1942. The total Allied shipping position was too near its lowest ebb for any meaningful relief to be obtained from the British Ministry of War Transport or the United States War Shipping Administration. There were too many administrative fences to mend, too many ruffled feathers to smooth. But Gordon set about his new task

of Director of Shipping with tactful efficiency; by the early part of 1943 orchestration of the bureaucracy had made substantial progress.

The essence of the organisational change was the concentration of formal authority in the position of Director of Shipping. While the shipping co-ordination regulations which legalised the change were not gazetted until June 1944,[1] Gordon exercised his new power from the outset. But the substance of the change was co-ordination rather than centralisation. Gordon was invested with ultimate authority over the Shipping Control Board, the Commonwealth Government Ship Chartering Committee, the Central Cargo Control Committee, the Stevedoring Industry Commission and related bodies, but the director wisely decided not to interfere with the day-to-day work of these authorities and concentrated rather on bringing them together to enable common solutions to be found. Only rarely was Gordon forced to use his power of direction. Usually a common course of action was devised by consultation, by presenting the total picture and by exploiting the director's considerable powers of persuasion and his intimate knowledge of the shipping industry.

By early 1943 the basic problems confronting the new organisation had been identified and some steps taken towards their solution. A summary of shipping resources and their disposition was on paper, a summary which revealed the desperate shortage of tonnage and the backlog of essential cargo. So as to make better use of Allied shipping in Australian waters, a British-American-Australian Shipping Committee was constituted in April. Similarly, a Tonnage Committee was created to co-ordinate the ships under the control of the Shipping Control Board and the Ship Chartering Committee. Other changes designed to expedite the working of ships in port included the creation of the Port Equipment and Development Committee and the strengthening of the Central Cargo Control Committee by the addition of representatives of the various port authorities.

As important as these administrative changes were, probably more immediate help was obtained by working out an effective system of cargo priorities largely on the initiative of the Department of War Organisation of Industry. Until late in 1942 there had been no clear or comprehensive priority system. Each local organisation had its own idea about priority ratings which usually reflected individual situations. Following the organisational change, War Organisation of Industry seized the opportunity to extend land transport priorities to sea transport and integrate the two systems. Priorities were drawn up in November 1942 and were effective early in 1943. Military cargo was given the highest priority, followed in a group by coal, iron ore, limestone and steel products; non-essential cargo was virtually eliminated. As the coal position deteriorated, coal was reclassified to rank in priority with military cargo. Priorities were kept under constant review by a small committee. This simple, overdue device made an important contribution to the better use of

[1] Statutory Rules 1944, No. 86, 2 Jun.

shipping in 1943. Of assistance in the same way was the formation of a Transport Co-ordination Sub-Committee in April 1943.[2] The sub-committee's purpose was to transfer some of the burden from shipping to the railways by taking advantage of the vacant backloading available from Queensland to the south. The main value of this work was to relieve the pressure on New South Wales intrastate shipping which had been seriously affected by the requisitioning of several ships.

Nevertheless, until late in 1943 there was only minor improvement in the coastal shipping position. In the first half of the year the short-fall was almost as great as in 1942. Heavy losses continued to be sustained by enemy action, and there was no question at this stage of any relaxation in convoying. Five Dutch ships became available for use in Australian waters at the beginning of the year but these were allocated to the Americans. Promised assistance by the British Ministry of War Transport was delayed and new ships chartered barely covered losses. The first Australian-built ship, the *River Clarence*, was not ready for use until May. In February the Allied Consultative Shipping Council was informed that iron ore stocks were down to 113,000 tons and by the end of the month were expected to fall to sixteen days' consumption. Broken Hill Proprietary Co. Ltd had five of its fleet out of action because of damage by the enemy. Victoria still had coal for five and a half weeks' consumption, but there had been a drop in stocks of one and two weeks' consumption respectively in South Australia and Western Australia. Since the beginning of the year steel products awaiting shipment had increased by 2,000 tons.[3] A large consignment of wheat to India had been held up waiting for space allocation. There were also long delays across the Pacific. The figures were disputed, but Macgregor of Australian War Supplies Procurement in Washington estimated in February that more than 200,000 tons of Lend-Lease goods were awaiting shipment to Australia and that the backlog was increasing. Apart from insufficient allocation by the United States War Shipping Administration, part of the reason appears to have been inadequate liaison between the Australian Legation in Washington and Australian War Supplies Procurement.

By mid-1943 there had been very little change, what change there was being due largely to the fall in coal production. Assistance from the British Ministry of War Transport had been delayed, and the United States War Shipping Administration had not been responsive. Although the fall in coal production had reduced the backlog awaiting shipment, the stock position in importing States had deteriorated still further and in July made necessary the detachment of several vessels from a convoy to load coal in Newcastle. The backlog in iron ore and steel was much the same as it had been at the beginning of the year, but this had only been possible by transferring the carriage of steel to the already over-burdened railways. At the same time Gordon's weekly tonnage reports

[2] Representing the Directorate of Shipping, New South Wales Railways, New South Wales Intrastate Steamship Owners, Timber Control and the Department of Transport.

[3] Adelaide Consultative Shipping Council Meeting No. 15, 10 Feb 1943.

revealed an increase in American pressure on shipping resources for the movement of war supplies to Queensland, Darwin, Port Moresby and Thursday Island in preparation for the northward thrust. Any acceptance of these demands merely delayed the movement of other essential cargo. The shipment of Lend-Lease supplies destined for Australia was still unsatisfactory, and the Australian Legation and Australian War Supplies Procurement in Washington were unable to agree on how much additional shipping, if any, was required.

The persistence of semi-crisis conditions built up pressure within the Australian shipping administration for another full-scale approach to the United Kingdom and United States for additional allocations of tonnage. But there was disagreement about how much should be sought, and which authority should be approached. Gordon argued that the United Kingdom was primarily responsible for the allocation of Allied shipping, and that the facts should be laid before the British Ministry of War Transport. He also believed that the Australian submission should be well documented and moderate, and that 50,000 to 60,000 tons dead weight would meet immediate needs. The substance of his reasoning was that, with the bulk of Allied shipping under British control, the United Kingdom Government was in the best position to consider the case; if the United States was approached successfully and the case was subsequently found to be weak, the British would merely reduce their support for Australia.

The argument on the other side was presented primarily by those who had close dealings with the Americans—the Division of Import Procurement, Australian War Supplies Procurement, and sections of shipping administration. It rested on the proposition that much of the problem was American-created and was capable of American solution. Thus, there were two main pressure points: the accumulation of Lend-Lease goods in the United States awaiting movement to Australia, and the absorption of Australian shipping by United States forces in Australia for the transport of military stores. Allocation of additional tonnage by War Shipping Administration to the Pacific and the South-West Pacific Area in particular, would relieve both sources of pressure. The proposal was to ask for at least 100,000 tons, rather more than was needed but on the principle that the Americans would deal with such a bid in the usual way. Weaknesses in the case were anticipated to some extent. The established American response to such requests was to claim that poor performance on the docks rather than shortage of shipping was the primary source of difficulty, and that the Australian authorities should employ more military labour. As a partial counter emphasis was given to the fact that around mid-1943 there had been some improvement in the turn-round of ships. The other weakness was uncertainty about the extent of the accumulation of Lend-Lease goods in American west coast ports. Some accumulation was of course inevitable, but whether it was excessive or not was the subject of a petty dispute between Australian officials in Washington involving more the demarcation of authority than

the facts in question.[4] In the end the Director-General of Post-War Reconstruction, Dr. H. C. Coombs,[5] was called in to arbitrate and decided that while the extent of the shipping backlog had been exaggerated the facts warranted the submission of a special claim.

On this basis a strongly-worded submission under the names of the Prime Minister and Minister for Supply and Shipping was submitted to the United States War Shipping Administration in June 1943 through H. V. Evatt, the Attorney-General and Minister for External Affairs who was in Washington at the time. The British Ministry of War Transport was kept informed, but the decision to approach the Americans was taken because of United States command in the South-West Pacific Area. In essence the case was that the

> Acute shortage of shipping in Australia [is] such that [the Australian Government is] concerned about the continuance of the country as an effective arsenal, supply and repair centre of [the] United Nations. Also [the] position [is] serious in respect of transport of the minimum essential requirements necessary for the general war effort.[6]

The cable detailed the low level of steel-making materials in producing areas, the burden on the railways, and the accumulation of essential cargoes at Melbourne, Sydney and Adelaide. It also provided a summary of shipping resources as at the beginning of June. After deducting losses by enemy action, ships temporarily out of action, vessels released to Australian and American forces and those used solely for shuttle service in northern areas, there remained on the coast for merchant shipping purposes 54 interstate ships and 68 intrastate ships aggregating 263,000 tons dead weight. For statistical effect these figures were compared with the situation in September 1939, but for present purposes it is more useful to compare the position with January 1943. At the beginning of the year there were 46 interstate and 68 intrastate vessels on the coast engaged on non-military work with a gross weight of 195,000 tons. Even though difference in the categories of weight makes these tonnages not strictly comparable, the addition of only eight interstate vessels indicates that while there had been some improvement the shipping position was not far removed from the crisis conditions of 1942. This was particularly so in view of the continued growth of war production until April 1943. The amount of help sought was 100,000 tons preferably in vessels of 4,000 to 6,000 tons, one-half of which was intended for the carriage of coal and the remainder to keep up the shipment of limestone, zinc and lead concentrates and reduce the accumulation of semi-defence and essential civilian cargo. Privately the Director of Shipping would have been reasonably satisfied with an allocation of an additional 50,000 tons.

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[4] The facade of the dispute concerned the volume of Lend-Lease awaiting shipment, but its substance was the division of tasks between the Australian Legation charged with responsibility for negotiating shipping space and Australian War Supplies Procurement for procurement. The Director-General of Australian War Supplies Procurement believed that total responsibility should have been his.

[5] Coombs had moved from the Rationing Commission to this post which was part of the new department, headed by Chifley, who continued as Treasurer, which had been announced by the Prime Minister on 22 Dec 1942.

[6] Cable 681, 12 Jun 1943.

The response in Washington was reasonably sympathetic, and London was also prepared to help as far as possible. There was of course no sudden change in the availability of ships. At the end of August a summary of the disposition of shipping indicated virtually no change compared with June. But from September there was a steady increase in allocations from several sources. In June 1943 United States forces in Australia received an additional 58,000 tons from War Shipping Administration for their own exclusive use. After several months operating in this way, the Americans were encouraged by the Lend-Lease Mission to help out along the Australian coast as far as possible. In September the Canadian Government advised that seven of its new Park Line vessels would be available for use on the Australian coast at the end of the year so long as there was no delay in the turn-round of ships, an arrangement which had been sponsored by the British Ministry of War Transport. It was anticipated that these ships would provide 50,000 tons, one-half the stated requirement. Shortly afterwards representatives of the British Ministry of War Transport and United States War Shipping Administration visited Australia to make a detailed assessment of needs. The visit resulted in several new British Ministry allocations to the Ship Chartering Committee, and indirect assistance by the United States. This assistance took the form of a substantial increase in direct shipment of war supplies from the United States to forward areas which relieved the pressure on Australian shipping.

By December 1943 the severe pressure on shipping space was over, at least until the end of the war in Europe. Most of the Canadian vessels had arrived, and those that were subsequently withdrawn from service in Australia were replaced by Swedish ships. Coal production had fallen sharply; the problem of low stocks in the importing States was now of different origin. Munition production had also fallen, and the shipment of vehicles to the islands for the Americans, which represented a major demand on shipping in the second half of 1943, had been completed. In January 1944 Gordon advised the Secretary of the Department[7] that "instead of the difficulty in spreading ships over cargo the reverse has been true". An additional element in the improvement was the phasing out of convoying. At the end of 1943 most ships were allowed to sail unescorted, although in vulnerable areas convoys were retained until mid-1944. This change alone added about thirty per cent to shipping efficiency. In 1944 the main shortage was in the category of small intrastate vessels of around 2,000 to 3,000 tons. In March 1943 the Shipping Control Board had decided to requisition the remaining vessels of the New South Wales coastal fleets, a procedure which was not completed until May 1944. To assist in the movement of cargo between New South Wales ports an Intrastate Shipping Committee was formed in May 1943.[8]

[7] A. V. Smith.

[8] Representative of the Directorate of Shipping, Comyn Smith & Co. (the firm appointed as agent for these vessels), the three owning companies—Illawarra and South Coast Steam Navigation Co., Newcastle and Hunter River Steamship Co., and North Coast Steam Navigation Co.—and later Timber Control.

But the shortage of such vessels persisted: they were well suited to island work and the Americans were reluctant to release any they were using despite the age of the ships and their generally dilapidated condition. Against the change in the supply of interstate and overseas vessels, however, this short-fall was of minor significance.

For the remainder of the war shipping capacity on the coast and across the Pacific remained relatively "easy". The 100,000 tons additional capacity was not quite achieved, but by early 1944 it had become plain that the amount of the claim represented a substantial element of insurance. To retain the goodwill of overseas authorities, the Directorate of Shipping ceased to press for extra help except to meet special situations. Thus, matters which received attention in 1944 and 1945 included the arrangement of space for the shipment of packing case timber from North America, the equipment of ships with refrigeration for the transport of food to the New Guinea area, and the release of small vessels from the Services to strengthen intrastate trade. The quality and availability of small ships was the only weakness identified by Beasley, Minister for Supply and Shipping, in a review sent to War Cabinet in September 1944.[9] Most of the ships were old and in poor condition when released from military use, making extensive and lengthy repairs necessary. Such repairs received low priority, and there was little improvement in the intrastate shipping tonnage before the end of the war. Indeed, a looming problem was the age of all ships, many being more than twenty years old and near the end of their commercial life, but this was a matter for post-war policy.

The basic decisions on charter rates and related financial matters had been taken at the time the bulk of the fleet was requisitioned in 1941. Following British practice closely and also pre-war arrangements with the Australian Steamship Owners' Association, companies were paid 9 per cent on the "basic value" of each ship (5 per cent for depreciation and 4 per cent for capital), plus running expenses including an amount for repairs. In addition, a commission of 6 per cent on the freight earned by a ship was paid as a cost-plus management fee, because the shipping companies acted as agents for the Shipping Control Board. (They collected all freight and made payments on behalf of the Board.) Further payments were made as "allowances" to cover a wide range of services and direct costs: superintendence of loading and unloading, the hire of general and handling gear, claims arising from pilfering and damage, and crews' overtime. The regulations required remuneration to be "fair", but within the components of total remuneration there were many difficulties in the determination of fair compensation. Of central importance among these was the definition of "basic" ship values on which a large proportion of the total payment depended. It was soon found, for example, that there were marked differences in the "basic values" of similar ships

[9] War Cabinet Agendum 471/1944.

and consequently variations in the earnings of companies who were in other ways operating under similar conditions.

An associated matter was the determination of freight rates. From the beginning of the war these had been controlled by the Prices Commissioner. The objective was of course to keep rises in rates as low as possible, but under war conditions rates were under severe upward cost pressure—not least because of marine war risk insurance.[1] In an attempt to reduce the cost of marine war risk premiums, all Australian ships had been required to insure with the Commonwealth Marine War Risk Insurance Board established in 1940. However, when ships were requisitioned the Shipping Control Board carried the risk. In either case the government was the underwriter and in accepting the risk had introduced an element of subsidy into freight rates.

With the establishment of the Shipping Control Board, the fixing of freight rates became more complex. As before, the Prices Branch determined rates for non-requisitioned shipping but the Board set its own rates for the shipping under its own control. The Prices Commissioner saw this as an anomaly and sought representation on the Board. The anomaly had become more pronounced in 1942 as the Board offset a proportion of cost increases—accentuated as they were by convoying —by incurring deficits on its own account whereas subsidies were not yet within the scope of the government's general prices policy. Further, the rates charged for the carriage of coal by British Ministry of War Transport and Ship Chartering Committee vessels were well above Australian-determined rates,[2] adding further to the Board's deficit. Yet there had been no definition of the Government's general approach to the payment of subsidies for shipping. Gordon pointed out in November 1942 that unless Shipping Control Board rates were lifted by at least 15 to 20 per cent losses would be running at between £1,000,000 and £2,000,000 a year. The policy question had to be faced: were the ships to be operated purely in the national interest (involving heavy subsidies), on a semi-commercial basis (with prices meeting costs but with an allowance for profit being met by a moderate subsidy), or on strictly commercial terms?

The decision of January 1943, in favour of the Treasury meeting the deficit of the Board, established the principle that shipping in general, as well as coal transported in overseas-owned ships, should be operated on a semi-commercial basis.[3] The War Cabinet did not make clear how far it was prepared to subsidise freight rates, but it decided that rates should not be altered for the present and that future changes should be made by the Board and the Prices Commissioner acting together. This meant that freight rates were once again brought within the scope of

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[1] See Butlin, *War Economy 1939-1942*, pp. 182 ff.

[2] The local rate for carriage of coal from New South Wales to Victoria, for example, was 11s. per ton, compared with 17s. 6d. when carried in ships under British Ministry of War Transport charter and 23s. when carried in Ship Chartering Committee vessels.

[3] By the same decision a representative of the Treasury was added to the Shipping Control Board. War Cabinet Minute 2598, 30 Jan 1943, on Agendum 40/1943.

general prices policy; and with the introduction of price stabilisation in April 1943 there were no further wartime changes in rates. But as the Board had been subsidising rates for most of 1942, wartime increases had been moderate. Expressed as a percentage surcharge on rates as at 3rd September 1939, increases can be summarised as follows:

	Between Tasmania and Western Australia and other States	Between States other than Tasmania and Western Australia
On 9 October 1939	10	10
On 1 October 1940	15	15
On 1 May 1941	17½	22½
On 16 February 1942	30	35

By contrast rates on the Australian Conference Line between the United Kingdom and Australia had been increased by a total of 100 per cent (in both directions) by the end of the war despite strenuous but unsuccessful protests by the Department of Supply and Shipping.

The January decision also initiated a lengthy and unproductive examination of the basis on which shipping companies were remunerated. As noted, the standard charter party was designed to return the companies nine per cent gross on the "basic values" of their vessels, plus six per cent commission on freight and supplementary allowances. The charter party specified that payment was to be made on a fixed daily rate with adjustment from time to time to maintain the nine per cent return. The shipping companies claimed repeatedly that these adjustments had been inadequate and that returns had fallen during 1942. An exhaustive examination by the Prices Branch, completed in November 1943,[4] found among other things that while returns were lower than before the war they were in the aggregate "reasonably fair" and that for 1942 all that was required to bring returns to nine per cent was the payment of an additional £109 per day on a total daily charter payment of £5,804. The issue was complicated, however, by the fact that ships' "basic values" had been inflated by the war. The Prices' investigation found, for example, that the cost of the twenty-two vessels when built for their owners totalled £2,145,000. At the time of valuation they were on average sixteen years old, yet their total basic values were placed at £2,048,000. Further, there were marked discrepancies in the way individual ships were valued, and in the values as accepted by the Shipping Control Board and as determined by the Naval Charter Rates Board for the ships requisitioned by the Services (for similar ships the latter being higher than the former).

As there was much to be said on both sides about appropriate accounting methods and the earnings of shipping companies, the issue dragged on until August 1944. As an interim arrangement the shipping companies had accepted lump sum payments to compensate for increased costs in 1943. The compromise arrangement, to operate from 1944 until

[4] "Charter Rates. Cargo Ships Requisitioned by the Shipping Control Board. Report on Investigation", G. T. Evans, Commonwealth Prices Branch, 12 Nov 1943.

derequisitioning, retained existing charter rates and the terms of the standard time charter party, but provided for shipping companies to make claims for increased costs if they thought their earnings had been insufficient.[5] However, the Government was prepared to accept the rate of return of nine per cent on "basic values" only as a guide to what might be reasonable and rejected any predetermined rate of remuneration. The compromise satisfied some of the Treasury's objections to the guarantee of nine per cent on "basic values" and allowed the shipping companies to be compensated for increased costs, but it left the way open for endless quibbling about the fairness of particular amounts of compensation.

SHIPBUILDING

The revision of the shipbuilding programme in July 1943 had reflected the need for greater diversity: for fewer overseas vessels and for more smaller ships to fill the large gaps in the coastal fleet. Accordingly the original order for twelve "A" class ships of 9,000 tons per year had been reduced to a total order of thirteen. In their place authority was given for the ordering of ten ships of 6,000 tons deadweight, ten of 4,000 tons and two of 2,000 tons.

The subsequent history of this programme is a further illustration of the continuing problem of relating orders for large and complex items of capital equipment to a rapidly changing war situation. With the improvement in the supply of vessels for the interstate trade at the end of 1943, the revised programme once again came under scrutiny. The initiative was taken by Sir Thomas Gordon who had in mind the deficiencies in intrastate shipping, but re-examination became enmeshed with the post-war requirements of shipping and shipbuilding.

The revised construction programme made a slow start, partly because of inevitable lags in the development of new designs, partly because of labour shortage, and partly because of resistance by shipbuilding unions to further labour dilution (anticipating as they did an uncertain demand for their labour after the war). The 2,000 ton design passed its tank test late in 1943 but little progress had been made with either of the other two. Even with the 2,000 ton ship it was anticipated that plans would not be complete until mid-1944 and that because of labour shortage the ships would take twelve months to build.

Late in 1943 Gordon was seeking an increase in the number of 2,000 ton vessels for it now appeared that this would be the most useful size along the coast and as far as the Netherlands East Indies. He also suggested modification of the engines of the established "A" class programme as the existing engine was uneconomic, a feature which would be of growing importance after the war. In addition, he argued that some ships should be fitted with refrigeration capacity. But Gordon was not

[5] Such claims were to be examined by a committee comprising representatives of the Prices Commissioner, the Shipping Control Board and the Treasury before determination by the Board. The Treasury had originally objected to the determination of compensation on a cost basis because of War Cabinet's rejection of "cost-plus" in Nov 1943, but there appeared to be no other appropriate formula.

included in a meeting of March 1944 to consider the design for the 6,000 ton vessel. Behind this seemingly trivial exclusion was a deterioration in relations between the Director of Shipping and the Director of Shipbuilding. Gordon's attempt to amend the programme was understandably irritating to Admiral McNeil whose interest was in getting on with the task which would take at least three years to complete without any further changes. But Gordon's doubts were well based. By early 1944 it was reasonably clear that the revised programme would have more post-war than wartime relevance, and there was no point in pressing ahead with a programme simply for the sake of continuity when available evidence suggested that the building of larger ships would lead to the creation of a financial incubus. The dispute between the supplying and consuming authorities was still in its embryonic stage but was shortly to have a major impact on the subsequent course of events.

The inter-departmental committee on post-war shipping and shipbuilding, appointed by War Cabinet in January 1944,[6] was concerned with much more than the composition of the shipbuilding programme, but its first report completed in March accepted that the current programme was the starting point for post-war shipbuilding and that Australia should concentrate on the building of small vessels. Other evidence came before the shipping administration that the requirement would be for vessels of 2,000 tons and less. Burns Philp & Company Ltd, one of the oldest of local shipping companies, stated that their need in the Pacific Islands trade would be for ships of 2,000 tons, while companies with intrastate fleets spoke of the need for vessels of between 150 and 500 tons. Indeed, it was in this class that the future of Australian shipbuilding appeared to lie.

The pressure from these sources for a further revision of the programme came together in July 1944 in a meeting under the chairmanship of Essington Lewis, Director-General of Munitions. It comprised members of the January 1944 inter-departmental committee, the May 1943 conference which had recommended the original revision adopted in July 1943, and a representative of the Department of the Navy. Items for consideration were the implications of the carryover of the existing programme into the post-war period, amendments to the programme, and priorities between different classes of vessels; but the centre of the stage was occupied by Gordon's proposal to delete the building of "B" class (6,000 ton) vessels and in their place add two more "D" class (2,500 ton), and to build twelve ships of 3,000 tons, six of 1,500 tons, six of 1,000 tons and ten of 550 tons. (He suggested no alteration to the approved order for ten "C" class vessels of 4,000 tons.) Such a programme would involve a total tonnage of 106,500 compared with 105,000, but McNeil pointed out correctly that the building of more individual ships would involve additional labour—perhaps twenty-five per cent more—irrespective of the small difference in total tonnage. McNeil and others were sceptical about the proliferation of designs and the

[6] War Cabinet Minute 3277, 24 Jan 1944.

proposed cancellation of the "B" class. The recommendations submitted to War Cabinet in August[7] were:

1. That work on the "B" class 6,000 ton vessels be retarded.
2. That arrangements be made to expand the "D" class 2,500 ton ships to a total of 10 [the increased number as a substitute for Gordon's 3,000 ton vessels].
3. Construction of 10 vessels of 550 tons urgently needed for intrastate trade be initiated by the Australian Shipbuilding Board, the Board having advised that the design will present no undue difficulty.
4. General authority be given to the Australian Shipbuilding Board to make variations in the programme as the requirements of the time may dictate to be determined in consultation with the departments and authorities concerned.

In addition the construction of refrigeration space in these vessels was to be examined, and the further requirements recommended by Gordon should be investigated further.

Despite an impassioned plea against further revision of the programme by a member of the Shipbuilding Board which was put before War Cabinet, the meeting's interim conclusions were promptly endorsed subject to the availability of any additional manpower.[8] The Shipbuilding Board was to submit to the Minister for Munitions recommendations for variations in the programme "as the requirements of the time may dictate", while a report was to be prepared on the additional ships suggested by Gordon. But there was little further activity of this kind. Arrangements were made to fit two of the "River" class and one smaller vessel with refrigeration, but examination of the need for additional small ships was shelved. So, too, was the Shipbuilding Board's periodic review of the suitability of the programme. Munitions was reminded of the obligation in January and July 1945 but by that time it was clear that the Department had no intention of recommending any modification.[9] The 1944 decision was expected to keep the shipyards full at least until the end of 1947; costs were rising rapidly and increasing doubts were being expressed about the post-war viability of the industry. The Shipbuilding Board was keenly aware of the collapse of the industry after the war of 1914-18, and it was not, of its own volition, offering its neck for the axe.

As indicated in the table, the revisions of 1943 and 1944 made no contribution to the flow of coastal cargo until well after the end of the war. Although the "D" class vessels were given the highest priority in 1944, the first such ship was not commissioned until 1946 or three years after authority was given for orders to be placed. Between ordering in 1941 and delivery from 1943 to 1948, the fortunes of the "A" class turned full circle. They were ordered at a time when the primary need was for vessels to carry exports overseas, but by the time first deliveries were made this need had largely disappeared. After the end of the war

[7] War Cabinet Agendum 397/1944 (revised).

[8] War Cabinet Minute 3730, 23 Aug 1944. The plea for no revision was that of A. S. McAlpine who had been largely responsible for the retention, reported in an earlier chapter, of the full order because steel had already been fabricated for the thirteen. In 1944, however, McAlpine was unable to offer a similar argument.

[9] Supporting notes on War Cabinet Agendum 397/1944 (revised).

when overseas ships were again in serious undersupply the "River" class ships were able to make a useful contribution and were envisaged as the basis of a government-owned shipping line.

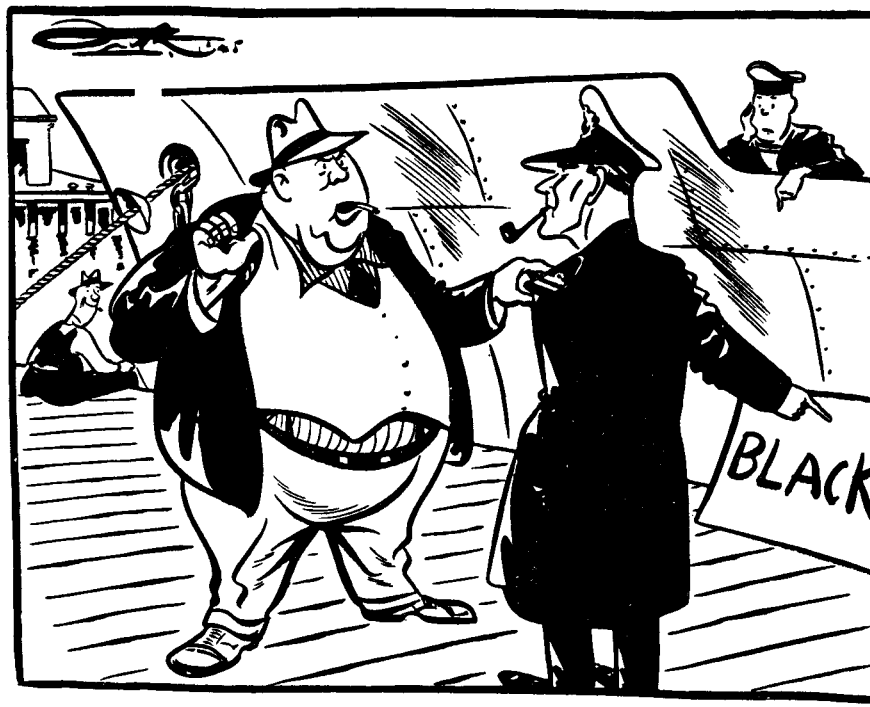
VESSELS CONSTRUCTED FOR AUSTRALIAN SHIPBUILDING BOARD TO 1 DECEMBER 1948

Vessel	Commissioned	Builders
	"A" Class 9,000 D.W.T.	
River Clarence	28 May 1943	Cockatoo Docks & Engineering Co.
River Burdekin	2 Dec 1943	Evans Deakin & Co.
River Glenelg	15 Mar 1944	Broken Hill Pty, Whyalla
River Derwent	7 Sep 1944	Broken Hill Pty, Whyalla
River Fitzroy	16 Nov 1944	Evans Deakin & Co.
River Loddon	12 Dec 1944	H.M.A. Naval Dockyard, Victoria
River Murchison	8 Feb 1945	Broken Hill Pty, Whyalla
River Murrumbidgee	10 Jul 1945	Broken Hill Pty, Whyalla
River Mitta	5 Nov 1945	H.M.A. Naval Dockyard, Victoria
River Murray	15 Nov 1945	Broken Hill Pty, Whyalla
River Norman	11 Jun 1946	Evans Deakin & Co.
River Hunter	29 Jun 1946	Cockatoo Docks & Engineering Co.
River Burnett	26 Sep 1947	Evans Deakin & Co.
	"B" Class 6,000 D.W.T.	
Barrigun	24 Jul 1947	Broken Hill Pty, Whyalla
Balaar	29 Nov 1948	Broken Hill Pty, Whyalla
	"D" Class 2,500 D.W.T.	
Delamere	15 May 1946	Broken Hill Pty, Whyalla
Dorrigo	28 May 1946	N.S.W. State Dockyard, Newcastle
Dandenong	19 Sep 1946	Broken Hill Pty, Whyalla
Daylesford	8 Dec 1946	Broken Hill Pty, Whyalla
Dubbo	24 Feb 1947	N.S.W. State Dockyard, Newcastle
Dalby	24 Apr 1947	Evans Deakin & Co.
Delungra	31 Oct 1947	N.S.W. State Dockyard, Newcastle
Dulverton	7 Jun 1948	Evans Deakin & Co.
	"E" Class 550 D.W.T.	
Eugowra	7 Feb 1948	Walkers Ltd, Maryborough
Enfield	9 Jul 1948	Walkers Ltd, Maryborough

WATERSIDE AND MARITIME PROBLEMS

There were many elements in the fall in the rate of turn-round of ships in 1944 and 1945. As elsewhere in the economy, there was a marked shortage of labour; men were older than the average for the work force; long hours had been worked over a period of years (some men worked 77 hours per week) encouraging absenteeism; and working conditions remained poor despite some wartime improvement. Ships were discharging more cargo per deadweight ton but the wharves had not improved; port handling equipment was inadequate and outmoded; port administration remained archaic and unimaginative. While ship owners persisted with provocative criticism of waterside labour, for perhaps the

THE HOME FRONT



NEWS ITEM:—The Central Wharf Stevedoring Company has had to advise the R.A.N. that they cannot carry out repairs to a ship owing to the "black" ban imposed on members of the Ship Joiners' Union by the Trades and Labour Council.

Union Boss: Don't you know there's a war on—between the unions?

Frith in Sydney Morning Herald *11 Apr 1945*

first time workers felt relatively secure in their employment and were determined not to allow a return to the exploitation and pernicious practices of the nineteen thirties. Many of the countless disputes over the fixing of a uniform size of slings, provision of transport from pick-up to jobs, payment of meal money, washing time and "smoko" time were described as petty (indeed subversive), and in isolation were petty. But they reflected the rising aspirations of workers in these industries and represented attempts to cast aside generations of industrial subservience and build on the gains that had already been achieved through the Stevedoring Industry Commission.

But industrial disputes were not the primary reason for growing port congestion and the longer time spent by ships in port. Indeed, there is little clear evidence of any marked change in labour efficiency in terms of gross tons loaded and unloaded. Statistics available about the industry before the end of the war are notoriously deficient, and there are no figures of man-hours worked by cargo categories. Available figures of tonnage loaded and unloaded indicate that, excepting 1941-42 and 1942-43, years affected by shipping shortage, the gross output of stevedoring remained reasonably stable during the war until 1945-46 when there was a fall of 8 per cent in overseas cargo and 19 per cent in interstate cargo compared with the previous year.[1] But these figures combine so many influences, including the pronounced shift from general to bulk cargo, that they are of little value. There can be little doubt that there was some decline in labour efficiency towards the end of the war because, other things being equal, the shift to bulk cargo should have increased tonnage moved per man-hour. But much more important than labour efficiency in affecting the rate of ship turn-round were factors beyond the control of the men and the unions. Shipping interests claimed with customary exaggeration that before the war it was normal for ships to spend two-thirds of their time at sea and one-third in port, whereas in 1944-45 the proportions were reversed, and argued that slow working was responsible. In fact, the alteration was due mostly to a change in the carriage efficiency of shipping combined with the failure of port authorities to improve their management of storage and movement of cargo once unloaded. The point was made repeatedly by the Stevedoring Industry Commission and its post-war successor, the Australian Stevedoring Industry Board. Five years after the war the Board presented the following figures of increases in the ratio of gross tons of cargo carried per gross ton of shipping in the port of Sydney:

	Interstate trade		Overseas trade	
	Imports	Exports	Imports	Exports
1937-38	0.26	0.17	0.19	0.11
1938-39	0.24	0.16	0.17	0.12
1948-49	0.64	0.34	0.28	0.23

Source: *First Report of the Australian Stevedoring Industry Board* (1950), p. 60.

[1] From *Commonwealth Year Books.*

If these ratios applied to all Australian ports, and on the assumption that the quantity of capital on wharves and the technique of handling remained unaltered, the amount of labour required per gross ton of shipping would have needed to increase by a factor of 2.1 between 1937-38 and 1948-49.[2] Alternatively, the efficiency of labour would have had to more than double to have avoided a fall in the rate of turn-round of ships. As most of the change in the cargo ratio occurred during the war, this was a large part of the explanation of growing port congestion even though it was largely ignored in stevedoring polemics.

Further, the nominal amount of labour available to handle cargo was seriously eroded by inefficient management and by restrictions imposed by the Waterside Workers' Federation. A common deficiency of management was its failure to keep cargo up to ships, resulting in gangs remaining idle waiting for deliveries to be made. Occasionally this was due to shortage of transport, but inadequate attention to detailed planning was the more common cause. Similarly, wharves and sheds were allowed to become unnecessarily congested because stacking and sorting were not properly directed—and because clearance from sheds was haphazard. Under conditions of acute labour shortage, shipping companies were inclined to hoard labour by engaging men for a shift before cargo was available, or before the ship had arrived, and then allow them to wait around while other ships were held up waiting for men to be released. The Stevedoring Industry Commission was able to direct men in such circumstances but effective policing was difficult. For its part the Waterside Workers' Federation in Sydney insisted on, and the employers accepted, a minimum engagement period of four hours even though a particular job might be completed well before the time had elapsed, so that men were sent home early rather than re-engaged for a new job. Stoppages for rain were also expensive in labour, especially when gang leaders were inclined to stop work at the first hint of a fall in the barometer. In all from twenty to twenty-five per cent of official working time was lost as a result of these practices, although it is not possible to determine how far this was a variation of what would have been normal before the war.

The age of men was an important additional factor influencing productivity. Since the beginning of the war there had been a pronounced increase in the average age of wharf labourers as revealed in the following percentage age distribution of the total work force:

	PERCENTAGE OF WORK FORCE IN EACH AGE GROUP					
	20 to 29	30 to 39	40 to 49	50 to 64	64 and over	Average age
1911	25.6	27.2	24.8	19.9	2.5	39.6
1939	10.2	22.5	25.7	35.9	5.7	45.8
1943	7.3	20.4	26.1	38.0	8.2	47.6
1948	10.5	24.5	27.4	29.0	8.6	45.6

Source: *First Report of the Australian Stevedoring Industry Board* (1950), p. 92.

[2] The required increase in labour efficiency has been derived by weighting the classified cargo ratios by cargo volumes, and then averaging.

Moreover, in 1911 the most common age—as distinct from the average —was about 33 years whereas in 1943 it had risen to 50. In view of the nature of the work and rudimentary mechanisation, this must have had a major bearing on labour performance.

Given the embittered state of industrial relations on the waterfront and the fact that reforms were likely to take years to bear fruit, the capacity of wartime authorities to improve the position for any length of time was strictly limited. For its part the Directorate of Shipping concentrated on ways of upgrading the handling of cargo. The Port Equipment and Development Committee formed in January 1943 was mainly concerned with the maintenance and improvement of ports to assist the movement of military cargo. Thus, it arranged the supply of additional lighters for the smaller ports (mainly in Queensland), the construction of mobile and floating cranes, coal hulks, additional wharf space by the Allied Works Council, and the dredging of harbours. It also advised on the development of the port at Darwin, and on the proposal to establish a large dock in South Australia. But by mid-1944 the committee's work was largely routine and was not actively involved in the end-of-war cargo handling problem.

This and related problems was increasingly the concern of a number of new special purpose committees, usually with Sydney as the focus of attention. Following a conference with American Army authorities, an Allied Materials Handling Standing Committee was formed in June 1944[3] for the official purpose of expediting ship turn-round and furthering the use of mechanical handling equipment. At least part of the reason for the committee's formation was to help moderate open American criticism of Australian port conditions. Nevertheless, it performed useful detailed work in organising pools of fork lift trucks and cranes, and by helping to extend the system of palletisation.[4] Following the decision that units of the British Fleet would join United States forces in the Pacific and be based in Australia, a Port of Sydney Advisory Panel was constituted with Sir Thomas Gordon as chairman to advise on the severe additional problems of berthing, anchorage, repair and docking in an already overloaded port. Such expedients were necessary merely to prevent further deterioration in the handling position.

By the end of 1943 the Stevedoring Industry Commission had been responsible for a number of major changes in the industry. It will be recalled that the Commission, when appointed at the beginning of 1942, had been clothed with arbitration and conciliation authority within the stevedoring industry. It was empowered to register *bona fide* waterside workers, fix quotas in each port, transfer labour as required, supervise the engagement of labour, and enforce disciplinary regulations. A Water-

[3] Murray Angus was chairman.

[4] In 1945 this aspect of the committee's work was formalised with the creation of the Commonwealth Handling Equipment Pool, more commonly known as CHEP. After the war the work of CHEP expanded considerably as a result of the take-over of American handling equipment left in Australia, but in 1958 a large part of the business was sold to Brambles Industries Ltd.

side Employment Committee, constituted on the same lines as the Commission, was established in each port to supervise the continuing working of ships in the port, and to intervene towards the settlement of industrial disputes. By the registration of labour and the setting of quotas, the Commission had taken what proved to be a historic first step towards removing the "casual" nature of waterside employment, one of the features of the industry which had unsatisfactory social ramifications. Through its rules of engagement it also instituted as far as possible the "gang" system to expedite the loading and unloading of ships, an innovation which did not always have the desired effect. Other rules of engagement provided for the continuous working of ships by both day and night which removed the employers' right to restrict working to any hours which suited them. Further, with money provided by the Government a start was made in building cafeterias, shower rooms and other essential amenities which had been neglected for far too long.

In 1944 and 1945 the Commission faced a more exacting period. Labour shortage was aggravated by the growth of absenteeism; industrial disputes increased in frequency as the Waterside Workers' Federation attempted to consolidate and extend the gains that had been achieved; the Commission was under constant criticism from employers, particularly interstate shipping companies, about its policy of so-called "appeasement" of the Waterside Workers' Federation. The quest for more labour led to the release from the Army of 700 men by the Manpower Directorate, and their acceptance by the Federation, in May 1944. But this number was inadequate to provide sufficient relief, and the need for the use of Army labour on military cargo continued. In November the Commission transferred 300 men from Brisbane to Sydney to relieve the chronic bottleneck which existed at this port, and pressed with modest success for special releases from the Army of workers nominated by the Federation. To help contain absenteeism and for more general reasons, canteen facilities were extended. The rules of engagement were also amplified to cover such detailed matters as the payment of special rates for wet work, engaging outside pick-up hours, and the use of unregistered labour. However, the Federation challenged the Commission's legal power to impose fines and, without the case going to court, the power was withdrawn and fines previously collected were refunded, but the Commission's authority to deregister and suspend was retained.

In the latter part of 1944 the Waterside Workers' Federation initiated its main thrust to extend benefits for its members. On 29th August before the Commission, Healy, the Federation's secretary, gave notice of motion requiring determination of items included in the 1940 log of claims to the Arbitration Court which had not been settled by the interim award of July 1941 or by the Commission since then. Matters raised included attendance money for waterside workers, annual leave with pay, and sick leave with pay. The motion was defeated although shortly after the war, in January 1947, the Commission in one of its last rulings granted the payment of attendance money at major ports (partly as a

move to reduce absenteeism), a provision which was gradually extended to minor ports. Also in 1947 the Arbitration Court ruled in favour of annual leave with pay. The initial defeat of Healy's move led, however, to an outbreak of strikes at the end of 1944 and in 1945. One such dispute concerned the deregistration of fourteen men of Gang No. 100 in Sydney by the chairman of the Sydney Waterside Employment Committee in October 1944. The circumstances were as trivial as they were typical. Men were either paid on Thursdays when working on interstate ships or on Saturdays when working on overseas ships. The men in question had been working on an overseas ship but on Wednesday 25th October were picked up to work on an interstate ship. They asked to be paid on Saturday—the normal day for them—because some of them would only have 14s. 10d. to draw on Thursday and would have to wait until the following Thursday for the balance. The request was refused by the shipping company and the men went out until their request was granted. After several warnings they were deregistered and, predictably, the dispute spread. Subsequently the Waterside Workers' Federation proposed that there should be one uniform pay day for all men, a proposal which was accepted by the shipping companies and endorsed by the Commission, but not before the deputy chairman of the Commission had resigned as a protest against the Government's decision to cancel the deregistration of the fourteen men. This decision was based on the view that the men were treated with unnecessary severity but also because of representatitions by Sir Thomas Gordon about the effect of a prolonged dispute on the movement of essential cargo. The event illustrates the persistent lack of common sense in the industry, and the Commission's inability—whatever the merits of the particular case—to enforce discipline under conditions of chronic labour shortage.[5]

In 1944 and 1945 an additional matter of concern was an apparent increase in pillaging from ships and wharves. The Central Cargo Control Committee claimed that pillaging had been "rife" in 1944, and submitted the evidence as presented in tabular form on page 492.

These figures were disputed as it was claimed that they exaggerated the extent of pillaging and short landing. They were not in a very useful form, comparing as they did monetary amounts with physical quantities. They purported to include only "pillageable" cargo (mainly general cargo). Even so the rate at which losses were sustained would be influenced by the nature of the cargo and its value. In these circumstances it was surprising to find a high degree of uniformity in the rate of pillage and short landing, with Brisbane appearing to be the port with the worst record.

Other evidence was even less satisfactory. The Services reported that from three selected shipments at the end of 1944 losses were 14,965 bottles of beer or 6.3 per cent of the total, 1,083 bottles of whisky or 14.3 per cent of the total, and 697 bottles of gin or 8.0 per cent of the

[5] Also in 1944 there were a number of organisational changes involving the Commission. In February its headquarters were moved from Melbourne to Sydney to enable work to be focused on the main trouble spot. In November, Mr Justice H. B. Piper was replaced as chairman by the Registrar of the Commonwealth Arbitration Court, D. V. Morrison.

total. By contrast, losses by the Services for the first three months of 1945 were under one per cent. Figures compiled by another department covering twenty-two overseas vessels carrying Service cargo to the value of £2,750,000 sterling revealed that losses totalled a negligible £528 sterling.

CARGO PILLAGED AND SHORT LANDED, MAIN PORTS, QUARTER ENDED SEPTEMBER 1944

	Trade	Cargo discharged (tons)	Pillage Claims paid £	Pillage Av. per ton d	Short landed Claims paid £	Short landed Av. per ton d	Pillage and short-landed av. per ton d
Sydney	I	121,346	3,253	6.43	5,734	11.34	17.77
	O	77,249	10,199	31.68	15,849	49.24	80.92
Melbourne	I	47,300	1,153	5.85	2,249	11.41	17.26
	O	60,002	9,159	36.60	6,478	25.91	62.51
Adelaide	I	27,240	831	7.32	1,016	8.95	16.27
	O	1,878	306	39.10	219	27.98	67.08
Fremantle	I	39,668	1,388	8.39	1,599	9.67	18.06
	O	744	3	0.96	100	32.25	33.21
Hobart	I	12,802	980	18.37	458	8.58	26.95
Brisbane	I	58,897	3,226	13.14	4,338	7.67	20.81
	O	3,406	940	66.30	216	15.22	81.52
Total	I + O	450,532	31,438	16.74	38,256	20.37	37.11

Note: I = interstate trade; O = overseas trade.
No discharge from overseas ships was reported from Hobart.
Source: Full Cabinet Agendum 830A.

The Full Cabinet accepted that there was a need for tightening control but ruled out Draconian measures. Responsibility for checking and enforcement were to be left primarily to the States, but the strengthening of police pillage squads was to be encouraged (to work in close association with specially trained customs officers); tally clerks, gatekeepers and carriers were to be registered; those convicted of pillaging more than once were to be excluded from wharves.[6] In short, the cargo protection regulations which became effective at the beginning of 1945 were to be enforced as vigorously as was consistent with the avoidance of further industrial disruption.

Shortly after the end of the war, in October 1945, Mr. Justice Foster[7] was appointed by the Attorney-General to enquire into the system of waterside labour control and the desirability of establishing the Commission as a permanent body. His report, presented in February 1946,[8] provides a useful vantage point for assessing the Commission's wartime work. As all evidence submitted emphasised, the Commission was established at a time of almost complete turmoil which threatened a closure

[6] Cabinet directed that no publicity be given to the decision to exclude second offenders from the waterfront. Full Cabinet meeting, 16 Jun 1945.

[7] Hon Mr Justice A. W. Foster. Judge of Vic County Court 1927-44; Chmn, Women's Employment Board 1942-43; Judge, Commonwealth Arbitration Court 1944-62. B. Beechworth, Vic, 28 Jul 1886. Died 26 Nov 1962.

[8] "Report on Stevedoring Industry Control", by A. W. Foster, 22 Feb 1946.

of major ports. The work of organising the industry was initiated with hostility running at a high level, and with very little statistical or other information. Yet within six months labour had been organised in a systematic way, and a start had been made in removing some of the sources of grievance. Foster had no time for those employers who claimed that the financial and social concessions granted by the Commission placed the shipping companies at a disadvantage after the war. His retort was that: "The conditions of the workers in the industry so far as amenities and the like were concerned have always been a matter of grave reproach and were far below any reasonable standard."[9] On the question of the Commission's contribution to the war economy, there can be no doubt that it played an important part in maintaining a reasonable flow of cargo, particularly in the vital years 1942 and 1943. Certainly it failed in 1944 and 1945 to arrest a deterioration in the rate of cargo clearance; it also failed to contain industrial stoppages. But as outlined earlier, the causes were beyond its immediate control. Foster's summing up can thus be accepted:

> . . . in spite of . . . [the failure to secure industrial peace] I am satisfied that the position would have been worse without the Commission; that Sir Thomas Gordon could not have achieved the shipping results he claimed, and that employers, in the circumstances of war and using only the existing industrial machinery, could not have obtained any result either satisfactory to themselves or the community.

Following Foster's recommendation that the Commission should be established on a permanent basis, a "new" Commission was constituted by the *Stevedoring Industry Act* of 1947 with full award-making power and arbitration authority.[1] Two years later, in May 1949, this Commission was disbanded and replaced by the Australian Stevedoring Industry Board but award-making and arbitration authority reverted to the Arbitration Court.

The central issue before the Maritime Industry Commission towards the end of the war was the future of war risk bonus payments. These payments had been established as a loading of 50 per cent on normal wages for seamen working on international shipping routes, and loadings of 33⅓ and 25 per cent for work in Australian waters (the precise rate depending on the degree of risk involved). Subsequently other benefits were added. In July 1943, for example, a war risk bonus order provided that where a ship was lost at sea, or so damaged as to put it out of commission, seamen were entitled to transport to the port of engagement, to wages and keep during the period of repatriation, and to wages for one month after return. The object of this order was to encourage seamen to re-engage as soon as possible. Also in July 1943 the range of benefits available to seamen working on vessels registered in Australia was extended to include men engaged on ships registered overseas but operating in Australian waters. At the same time regulations were introduced

[9] Foster Report, p. 21.
[1] Mr Justice R. C. Kirby was chairman.

providing medical and repatriation benefits for the injured, and payments to the widow of a seaman killed at sea as a result of enemy action.[2]

On the grounds that the war risk had subsided, the scale of bonus payments had been reviewed by the Commission at the end of 1943. No immediate action was taken, but the threat of reduction and eventual abolition prompted strong action by the Seamen's Union to have bonus payments incorporated permanently in award wages, the argument being that seamen's wages had risen substantially in a number of countries during the war. Having been absent since the *Canberra* dispute of June 1943, Seamen's Union representatives rejoined sittings of the Commission in April 1944 and were successful in deferring the issue. However the matter came to a head in October 1944 when the Commission decided, on the chairman's casting vote, to reduce payments as from 1st November. The union retaliated immediately by refusing to provide cooks and able seamen for a number of vessels. On 15th November the Commission's chairman, Mr Justice A. J. De Baun,[3] sought a confidence motion for the action that had been taken. Predictably the union members refused, and De Baun promptly resigned.[4] The following day as a result of the intervention of Sir Thomas Gordon, previous bonus rates were restored, to continue until 1st February 1945. In fact it was not until 1st July 1945 that rates were reduced to 33⅓ per cent for overseas work, and 25 and 15 per cent for work in Australian waters. Nevertheless, petty disputes continued to hold up ships, although the industrial problem was not as serious as on the waterfront.

Although the Commission enjoyed wide powers, one loophole was its inability to control seamen after they had been discharged. Its power over seamen was restricted to the period of their engagement. Thus, many of the manning problems were created by the failure of men to report at pick-up points. The bargaining position of the Seamen's Union was accordingly strengthened by its ability to withhold labour. On several occasions the Commission urged the formation of a compulsory labour pool to replace the voluntary arrangement that had existed since 1942. Legal difficulties stood in the way however and the matter was shelved.

As with the Stevedoring Industry Commission, the Maritime Industry Commission played an important role in organising the industry for war purposes. Its lack of power to control men between engagements was a weakness, but there is no doubt that manning and other industrial problems would have been far greater in its absence. Industrial and social conditions were improved considerably. At the end of the war Beasley, Minister for Supply and Shipping, was still able to deplore the lack of port amenities,[5] although this was more a reflection of rising expectations than of the limited nature of wartime improvements.

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[2] Statutory Rules 1943, No. 177, 14 Jul.

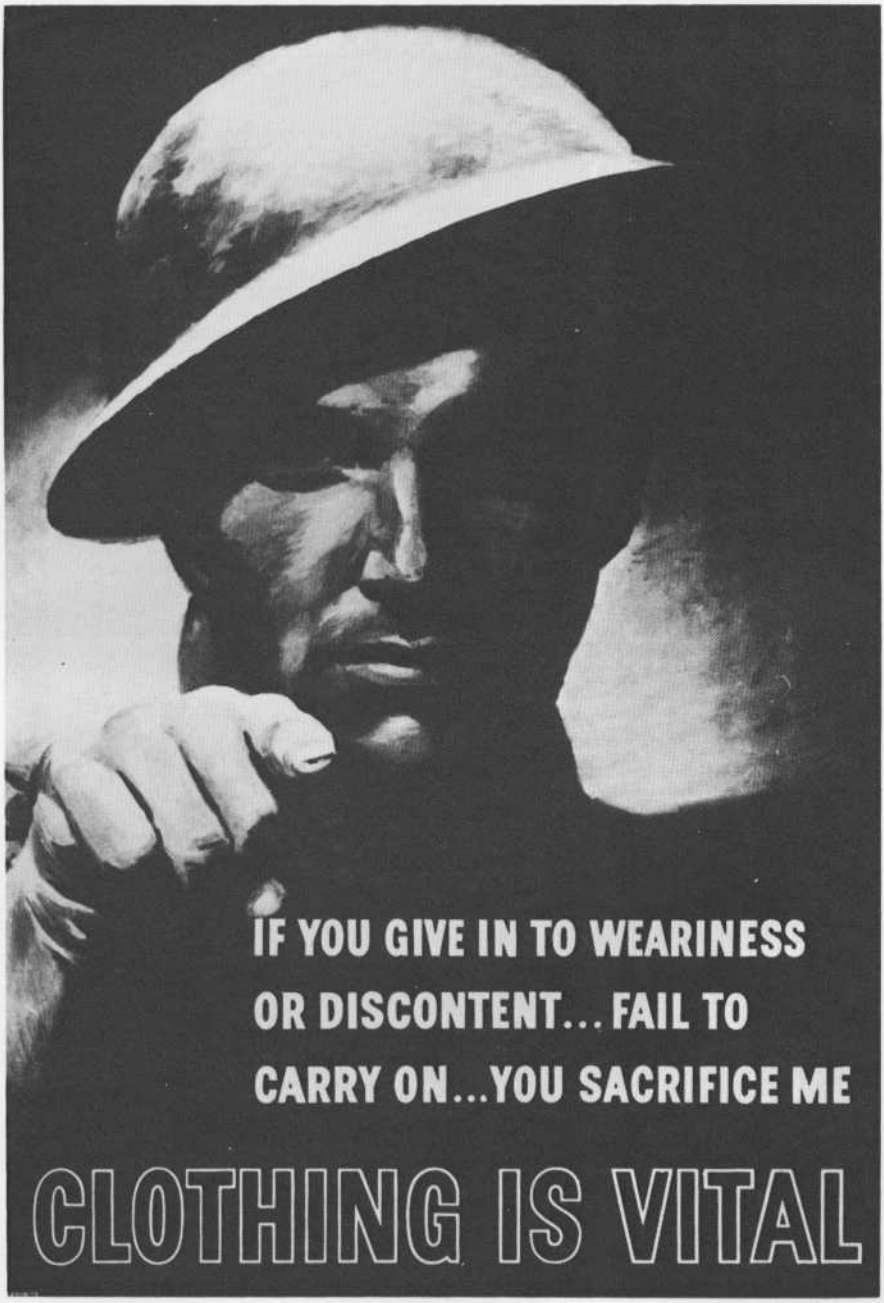
[3] Hon Mr Justice A. J. De Baun. Mbr Industrial Commission NSW from 1938; Chmn Maritime Industry Comm 1942-44. B. Menindie, NSW, 9 Nov 1894.

[4] The Commission continued under the acting chairmanship of S. T. Edwards, representative of the Australian Ship Owners Federation.

[5] *Digest of Decisions and Announcements*, No. 93, p. 90.


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"Honorable thanks"
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CLOTHING IS VITAL

After the war the Commission continued in its wartime capacity until a decision was made about its future. Discussion was protracted because of a sharp division between employers and the Seamen's Union about whether the Commission should retain authority over industrial matters other than wages, the former arguing that complete industrial power should be restored to the Arbitration Court. Again, the bone of contention was the future of the war risk bonus, the union believing that it had a better chance of partial retention with a special industry authority. The matter was still unresolved when National Security Regulations lapsed in 1948 and the Commission was continued by means of an Act. Eventually the Menzies Government abolished the Commission in 1952 and the control of matters outside the jurisdiction of the Arbitration Court reverted to the Department of Fuel, Shipping and Transport by amendment to the *Navigation Act.*

POST-WAR POLICY

Consideration of post-war shipping policy, initiated at the beginning of 1944, involved determination of the likely size of the coastal fleet, the future of requisitioned shipping, disposal or otherwise of government-owned ships, conditions of registration of coastal shipping, the permissible movement in freight rates (to be decided in conjunction with prices policy generally), the rate of ship construction, and the administrative organisation required to replace the range of authorities created under the National Security Regulations. Before the end of the war the inter-departmental committee on post-war shipping and shipbuilding had completed a report for War Cabinet[6] which was subsequently endorsed in substance by a Cabinet sub-committee and adopted by Full Cabinet in August 1945.[7]

The basic assumptions on which the report was compiled were, first, that for defence reasons the pre-war size of the coastal fleet should be expanded, and that a shipbuilding programme should be retained to provide for this expansion and necessary replacement; second, that the Government should retain ownership of its ships in line with the general policy of extending government control of transport. Thus, the committee proposed a shipbuilding programme of 32,000 gross tons per annum for a period of at least ten years. Most of this programme would initially be absorbed by replacement of very old ships (ships older than twenty-five years were to be removed from the register), and by building up the fleet to its pre-war level of about 450,000 tons. Thereafter it envisaged that the building programme would be continued at least until the fleet had been expanded to 750,000 gross tons, a rough estimate of ultimate post-war requirements. To equalise overseas and local shipbuilding costs, a subsidy of between £500,000 and £1,000,000 a year was envisaged; no ships were to be built except on order or under licence from the post-war shipping authority. An important reason for the subsidy was, of course, to keep

[6] War Cabinet Agendum 76/1945; War Cabinet Minute, 27 Feb 1945.
[7] Full Cabinet Agendum 900; meeting 9 Aug 1945; also Full Cabinet Agenda 900A to 900E.

coastal freight rate increases as low as possible; price control of rates was to continue as long as the Commonwealth held power in this area.

The committee was less emphatic on the question of ownership. It acknowledged the case for government ownership but did not recommend this course exclusively. Rather, it encouraged the idea that requisitioned shipping should revert to private operation but that the Government could operate its own ships. This was subsequently endorsed by the Cabinet sub-committee, and Full Cabinet's decision was that requisitioned shipping should be returned to owners as quickly as possible. Apart from the constitutional question, the reason given was that these ships could be operated at lower cost by their owners. At this stage the future of the Government's own ships—and the possible development of the fleet to form a government overseas shipping line—was left in abeyance.

The resignation of Sir Thomas Gordon as Director of Shipping in September 1945 forced the question of future administrative arrangements. Shipping regulations were promptly amended to constitute as from 1st January 1946 the Australian Shipping Board to take over the remaining functions of the Shipping Control Board, Commonwealth Ship Chartering Committee, Central Cargo Control Committee and Marine Salvage Board. There was little initial change in the volume of work undertaken by this consolidated group. The number of chartered vessels on the coast fell quickly, but the Australian Shipping Board was responsible for the growing fleet of government-owned ships. Further, it was not found possible to derequisition as rapidly as expected. The pressure on coastal shipping resources continued to be heavy in 1946, and shipowners were only prepared to accept the return of their ships after a substantial increase in freight rates. Such an increase was granted by the Prices Branch at the beginning of 1947, and derequisitioning commenced in August of that year.

In January 1946 Full Cabinet decided formally to retain permanent ownership of its own ships,[8] and in July 1947 it approved the logical corollary—the formation of a Commonwealth Shipping Line for the coastal trade and for trade between Australia, New Guinea and adjacent islands.[9] At the same time it endorsed a previous decision to reserve the Australian coastal trade for Australian vessels, and also the 1945 decisions about shipbuilding and the planned size of the combined private-government fleet. In 1949 the *Shipping Act* reconstituted the Australian Shipping Board on a permanent basis and authorised the Commonwealth Shipping Line to engage in overseas as well as coastal and territorial trade.

[8] Full Cabinet Agendum 900A; meeting 18 Jan 1946.
[9] Full Cabinet Agenda 1200A to 1200G.

CHAPTER 18

FOOD PRODUCTION AND ALLOCATION

FOOD production and allocation was second only to manpower as the central concern of economic policy in the final two years of war. After a period of comparative neglect at the highest level, food matters absorbed a growing proportion of the time of the War Cabinet and the Full Cabinet; it dominated proceedings of the Production Executive from 1943 onwards. The source of the difficulty was a growing imbalance between production and demand in essential foodstuffs, especially protein foods. By early 1943 production of dairy products, sugar and fish had fallen sharply, largely because of the withdrawal of manpower from these industries. In the case of meat, vegetables and eggs, output was not rising sufficiently rapidly to meet the escalation of demand. The causes of the growth in demand were linked with the changing fortunes of war. Through 1942 and early 1943 Allied shipping capacity was so depleted that United Kingdom requirements for Australian food and other commodities were limited, but this was reversed from mid-1943 with the reopening of shipping routes and the exhaustion of alternative United Kingdom sources of supply. American strength in the South-West Pacific and South Pacific Areas continued to rise rapidly, and strong pressure was maintained on Australia and New Zealand to meet a high proportion of the needs of the United States forces at a comparatively lavish ration standard. Then in 1944 and 1945, at a time of serious drought in south-eastern Australia, the Government was morally obliged to meet some of the urgent requests of the United Nations Relief and Rehabilitation Administration.

The widening gap between supply and demand created complex problems of production planning and allocation of available supplies. A system of production goals was established to make maximum use of scarce labour and materials and to encourage production of those commodities most in demand. Control was far from complete, and the wool and meat industries were largely unaffected; but for a large number of rural industries planning involved an unprecedented degree of government intervention. Allocation of depleted supplies between Australian civilians and Allied requirements both military and civilian made necessary a large number of awkward compromises. Total civilian consumption was reduced, particularly of high nutrient foods. While the average nutrient standard was fairly well maintained in the circumstances, a number of vulnerable groups in the community were reduced to a dangerously unbalanced diet. But there was still no prospect of meeting the basic needs of the United Kingdom, the United States forces in Pacific areas, and U.N.R.R.A. An effort was made to curb the seemingly unlimited demands of the United States, but until 1945 the main burden of downward adjustment fell on the United Kingdom and U.N.R.R.A.[1]

[1] See also J. G. Crawford and others, *Wartime Agriculture in Australia and New Zealand 1939-50* (1954).

AGRICULTURE AND THE WAR ECONOMY

Government policy must share some of the responsibility for the failure of agricultural industries to meet requirements. As recounted earlier, there was a long delay in revising food policy. The division of authority between the Department of Supply and the Department of Commerce and Agriculture had led to internal conflict and contradictory policy objectives. During 1942 and much of 1943 food production lay outside the economic organisation for war: there was no consistent attempt to balance the legitimate needs of food industries with the overriding pressure to recruit for the Services and for munitions production. Under the threat of invasion and with shipping seriously disrupted, it was appropriate that agriculture should have taken second place. But as in the case of manpower and munitions, the Government was slow to alter focus when military fortunes improved at the end of 1942.

The first indication of a shift in priorities had been the creation of the Food Executive of Cabinet in April 1943, composed of the Ministers of Supply (chairman), Commerce and Agriculture, War Organisation of Industry and the Treasurer; it was intended to produce the sort of concentration of authority that might have been achieved by the creation of a separate ministry of food (a solution which had been debated but which was quickly rejected). But the formation of the Food Executive merely raised the old jurisdictional squabble between the Departments of Supply and Commerce in a new setting. A meeting in May 1943, with the Prime Minister in the chair, had brought the issue to a head. As Scully, Minister for Commerce and Agriculture, was implacably opposed to the transfer of agricultural production to the Department of Supply, claiming correctly that this would have made his department redundant, Beasley conceded, no doubt under the pressure of Curtin and Dedman, the transfer of the Division of Defence Foodstuffs (with the exception of its director) to the Department of Commerce and Agriculture. Thereafter production, procurement and distribution functions were united in the Department of Commerce and Agriculture.

For the remainder of the war, therefore, the flow of administrative responsibility was from the Director-General of Agriculture (responsible for production in association with the Inter-departmental Committee on Production Goals) and the Commonwealth Food Controller (responsible for procurement and distribution) to the Minister for Commerce and Agriculture. Food Executive retained its position as the ministerial body responsible for policy, but its existence was nominal. Most of the important decisions were taken by Production Executive with periodic reference to the Full Cabinet or to the War Cabinet. This was a logical development. Food Executive's creation had been merely window dressing to appease the warring factions in Supply and Commerce; once the source of friction had been removed the need for a separate Cabinet authority had been eliminated. The Director-General of Agriculture continued to work through State Departments of Agriculture, and through District War Agriculture Committees which were increased in number and given more

resources. The Australian Agricultural Council necessarily remained apart, acting mainly as a forum for airing State grievances.

Food Executive's first and most important meeting on 19th June 1943 produced a firm recommendation to the War Cabinet that "food production and control be regarded as a war activity for all purposes of priority of labour and materials". In addition, the Minister for War Organisation of Industry was to prepare a submission seeking a direction to the Army to release a specified number of men for rural work. These moves had the strong support of the War Commitments Committee, and in July the War Cabinet accepted the principle that food production be regarded as a war activity. In addition, production of agricultural machinery was entrusted to the Department of Munitions and classified for purposes of priority as a munitions project (subject as were all new projects to the issue of manpower certificates by the Director-General of Manpower); and approval in principle was given for the release of men from the three Services.[2] These were the key decisions which were based on the abundant evidence of over-commitment of resources to the direct war effort. They were taken at a time of rapid escalation in the demand for food by the Americans, and after a period of decline in the production of a number of essential commodities. There was no early prospect of closing the gap between demand and supply, but at least decisions in principle had been made: for the first time food industries had some prospect of competing on equal terms for resources with the Services and munitions production.

Translation of the principles into detailed decisions was delayed pending examination by the War Commitments Committee of the amount of additional rural labour required. Before final figures had been prepared for the War Cabinet, the Minister for Commerce and Agriculture presented his own estimates of rural labour requirements and drew attention to the growing imbalance between expected production and requirements. The Commerce submission covered much familiar ground: depletion of the work force in dairying, the need for additional labour for vegetable production and food processing, the shortage of seasonal workers in all food industries, the rapidly growing deficiency of meat, and the persistent shortage of timber for case-making. Scully also highlighted a problem which was soon to become a major issue: the size of American requirements for 1944, the disparity between United States and Australian ration scales, and the fact that the American lists included large quantities of food for the South Pacific Area (which was primarily New Zealand's responsibility) and for areas north of the South-West Pacific Area.[3] On the basis of total requirements in 1944, it was estimated that 50,000 nominated men would need to be returned to agriculture from the Services, the Allied Works Council, and munitions factories. But the submission was characteristically deficient in logical consistency and in presenting clear alternatives for Cabinet decision. The industry composition of the required 50,000 was not specified. Various alternatives to the supply of all

[2] War Cabinet Minute 2972, 13 Jul 1943.
[3] Full Cabinet Agendum 536, 10 Sep 1943.

requirements were canvassed—such as increased export of food from the United States to the United Kingdom as a *quid pro quo* for the diversion of Australian exports from the United Kingdom to United States forces in the "Far East"—but the implications had not been worked out.[4] Cabinet was presented with a reiteration of the food production problem, with statistics of uncertain reliability, and with a range of possible courses of action the consequences of which had not been explored adequately.

As noted in earlier discussion of manpower problems generally, the War Cabinet had authorised the release of 40,000 men from the Services and war industries on 1st October 1943. As they affected food industries, the decisions were that of the 40,000 to be released priority was to be given to the discharge of 15,000 experienced rural workers. In choosing this number for permanent release, the War Cabinet was relying on the estimate of minimum requirements put forward by Commerce and Agriculture the previous July and not the 50,000 nominated in September as the number required to bring production up to demand in 1944. In short, the principle of rationing was invoked. But no attempt was made to specify how the limited supply of food was to be allocated between civilians, the Services, the Americans and the United Kingdom; the United Kingdom and United States were merely to be warned that production forecasts could not be given but that progress reports would be made available. The rejection of the proposal of the Combined Food Board in Washington that Australia should be turned into a food bowl for the Allies was reinforced by the decision to treat "food production targets approved by Production Executive . . . as maxima having regard to the minimum military effort which must be maintained by Australia".[5] In addition to the release of permanent workers to allow production targets to be approximated, the pool of seasonal workers was to be increased (to a maximum of 10,000); a further 5,000 men were to be released (as a second priority within the global figure of 40,000), with the "requisite" number of women, for food processing. Given that total male employment in rural industries had fallen by about 134,000 or 27 per cent since 1939, the intended reallocation of resources was limited indeed.

The integration of agriculture and the war economy which these decisions signalled formally was slow to take effect. Most of the releases of men from the Army—and the negligible number from the Munitions bloc—were concentrated in the period March to June 1944, so little benefit was derived for the 1943-44 seasonal peak. And then there were problems with the occupational composition of the men released, prim-

[4] A high proportion of the more important submissions to Cabinet prepared by Commerce and Agriculture lacked professionalism. A number were returned by Cabinet because they were inadequate in either fact or in properly formulated recommendations, such as War Cabinet Agendum 226/1943, which was sent back for redrafting to include a concise summary of proposals. All too frequently submissions were written as seminar papers with consequent damage to an otherwise good case and delay in decisions being reached. After the end of 1943 important submissions on food production tended to pass through the Department of War Organisation of Industry for transmission to Production Executive resulting in a marked improvement in quality, but on high level policy matters such as the scale of rations for the Americans (discussed below), Commerce and Agriculture was still inclined towards unbureaucratic rhetoric.

[5] War Cabinet Minute 3065, 1 Oct 1943.

arily in the shortage of young dairy farmers returned to the industry. More progress was made in reallocating labour in 1944-45, and by early 1945 labour was not the most serious deficiency. However, the drought in the south-east in 1944-45, the continued low level of investment, the comparative failure of the agricultural machinery production programme, the persistent shortage of fertilisers, and the inadequacy of price incentives in the meat industry negated most of the benefits of the inflow of labour. In retrospect it is clear that too much was expected from the manpower release scheme, limited as the scheme was, and was intended to be. The long-term effects of the crippling depression of the 'thirties and the very low level of wartime investment meant that most industries were incapable of responding adequately to a modest restoration of farm workers.

PRODUCTION PLANNING AND CONTRACTS

From the 1942-43 season until 1945-46, production policy for all main commodities (wool excepted), and a number of strategic minor ones, was governed by the goals that were set by Production Executive on the recommendation of the Inter-departmental Committee on Production Goals under the chairmanship of A. R. Callaghan.[6]

The production goal was an instrument of indicative planning. Initially it was a guide to required production within the limits of available labour and materials; from 1943-44 it was a guide to maximum production. Estimated output forecasts were built up from regional data prepared by District War Agricultural Committees in association with State Departments of Agriculture. Totals were then examined by the Commonwealth Directorate of Agriculture in collaboration with the Inter-departmental Committee on Production Goals in the context of the structure of requirements and the cross-effects of a change in one goal on prospects of other industries competing for the same labour and materials. Goals were intended to be realistic; they were set at amounts which industries could reasonably expect to produce given average weather conditions and reasonable support from the administration. Goals were therefore allowed to fall when production was clearly on a downward path, as in the case of meat in 1945 (see table below). Conversely, goals were only increased when prospects were favourable. Goals were set sufficiently high to encourage available resources to be used to their limit but not so high as to encourage defeatism. This was a delicate task, and regional authorities improved their techniques with experience.

Goals were used as a basis for determining the allocation of fertilisers and other materials. As an indicator of likely production, they were also used to help determine the level of consumer rationing of butter, sugar and meat, and to provide a starting point for the allocation of any surplus above civilian and Service needs to the Americans and the United Kingdom.

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[6] Sir Allan Callaghan, CMG. Principal Roseworthy Agric Coll, SA 1932-49; Asst Dir (Rural Industries) Dept War Organisn Ind 1942-43; Dir Agric Organisn Food Control 1943; Dir of Agric SA 1949-59; Commerc Counsellor Aust Emb Washington 1959-65; Chmn Aus Wheat Bd 1965-72. B. Perthville, NSW, 24 Nov 1903.

Finally, goals were used in association with financial incentives and other devices to encourage reallocation of production. Adjustment to wartime needs required continuous kneading of the rural economy. The demand of some products such as wool and wheat was reduced, while the need for others increased sharply—vegetables, peanuts, cotton, rice. Substantially new industries had to be developed—flax, vegetable seeds, blue peas, ginger and vegetable dehydration. Dietary fashions came and went. At one stage blue peas were highly recommended for Service rations but then consumer resistance conquered Army dietitians. Goals were intended to provide the guidelines for the land use switching that was desired. Reallocation was however a complex task. Extreme care was necessary at the regional level not to produce an exaggerated switch, or a switch into an essential industry from an even more essential one. Probably the most difficult matter in this context was the widespread complementarity between vegetable growing and dairying. Contract vegetable growing produced good short-term cash returns at moderate risk, and encouraged a transfer—especially in the climatically less well endowed dairying areas of New South Wales and Queensland—away from milk production. Production Executive's response was to limit the award of vegetable contracts in sensitive areas, and to increase financial returns in dairying.[7] The decision probably helped to check the move away from milk but certainly did not eliminate it. In general production goals helped to achieve fairly rapid changes in land use with the major reservation that wool-growing was left relatively untouched and that not sufficient incentives were offered to meat industries. The technical possibilities for transfer from wool to meat were of course limited, and the change could not be achieved as quickly as elsewhere in agriculture. Nevertheless, more could have been achieved by increasing incentives to meat producers, particularly for lamb and beef.

Given the slow progress of the manpower release scheme and the widespread shortages of equipment, materials and transport, there was little that the Directorate of Agriculture could do to increase production to satisfy demands other than through a moderate amount of reallocation. Indeed, in the face of deteriorating weather conditions the Government concentrated on attempting to hold production (particularly of protein foods) at its 1943 level. This is revealed in the monthly reports presented to Production Executive by Food Control beginning in March 1944.[8] Food reports tabulated previous production, targets, revised production estimates, and proposed allocations, and allowed a more comprehensive monitoring of the food supply position than had been possible previously. Continuously revised production forecasts enabled the Rationing Commission in Australia and the Combined Food Board in Washington to have more up-to-date information on probable allocations, and Commonwealth Food Control to anticipate deficiencies. That deficiencies in production were the Government's main concern is revealed in the table. Few targets

[7] Production Executive Agendum 51/1944, 28 Apr.
[8] Production Executive Decision 456, 8 Feb 1944; Agendum 43/1944 and supplement.

AGRICULTURAL PRODUCTION AND GOALS, MAIN COMMODITIES, 1942-43 TO 1944-45

Item	Unit (see note)	Production average 1937-39	1942-43 Goal	1942-43 Production	1943-44 Goal	1943-44 Production	1944-45 Goal	1944-45 Production
1.1 Total milk	m. gals.	1,142	1,200	1,129	1,210	1,067	1,210	976
1.2 Butter	tons '000	185	190	171	175	156	—	142
1.3 Cheese	tons '000	24	39	36	45	36	—	35
1.4 Fresh milk	m. gals.	165	170	180	—	195	200	195
2.1 Total meat	tons '000	985	1,040	1,023	1,180	1,027	1,000	900
2.2 Beef & Veal	tons '000	567	560	517	560	473	485	440
2.3 Mutton & Lamb	tons '000	319	380	415	477	424	380	335
2.4 Pigmeat	tons '000	86	100	91	145	130	135	125
3.1 Fish	lbs. m.	—	—	—	63	55	61	60
4.1 Vegetables	acres '000	109	—	158	252	192	246	220
5.1 Potatoes	acres '000	114	*500*	*483*	174	182	278	233
6.1 Eggs	doz. m.	65	75	80	100	89	105	105
7.1 Rice	acres '000	24	*55*	*57*	40	41	40	25
8.1 Sugar	tons '000	817	643	650	600	507	600	646
9.1 Wheat	bushels m.	164	110	156	100	110	*9.0*	*8.4*

Notes, general: Figures have been rounded. Figures in italics are expressed in units different from those indicated, as explained below. Rows 1.2 to 1.4 are components of Row 1.1, and Rows 2.2 to 2.4 exponents of Row 2.1.

Notes, by row: 1.2 and 1.3, goals for 1944-45 expressed as a composite, milk for processing; 2.1 to 2.4, meat goals and production set for calendar years, so that 1942-43 refers to 1943 and so on; 5.1, goal and production in 1942-43 expressed in thousands of tons; 6.1, production in 1937-39 is an estimate; 7.1, goal and production for 1942-43 expressed in thousands of tons; 9.1, goal and production for 1944-45 expressed in millions of acres.

were reached in 1943-44 and 1944-45, although there were some notable exceptions. Vegetable and potato production was maintained at a high level, a testimony to the effectiveness of price incentives under suitable conditions; egg production was lifted sharply at the end of the war; a substantial recovery was achieved in sugar output in 1944-45 by concerted Government action. The following account of the more important food commodities reveals, however, the limited effect of the attempted integration of agriculture and the war economy. The account concentrates on those foods which were of primary concern in the last two years of war.[9] For convenience the narrative is taken up in 1942.

The war affected dairying more severely and at an earlier stage than any other major food-producing industry. The fall in production, evident in 1941, accelerated in the first half of 1942 almost entirely because of the loss of labour. Dairy farmers appear to have been among the first and most willing to offer themselves for military service or industrial employment, largely because of the extremely poor conditions on most dairy farms. The industry was dominated by small family farms (notably in New South Wales and Queensland), remuneration was low, hours long and monotonous, and mechanisation was at an early stage of development. In short, dairy farmers were the peasants of mid-twentieth century Australia.

The Government tried to stem the tide of falling production by promoting an industrial award for the industry, increasing rates of pay for dairy hands, offering a succession of subsidies and other incentives and, as has been noted, arranging for the release of dairy farmers by the Army. But all proved to be palliatives. During the latter part of the war only a fraction of the export commitment to the United Kingdom could be met, the Americans were severely rationed, and average consumption of dairy products by civilians was significantly lower than in either the United Kingdom or the United States.

The starting point of the Government's attempt to bolster the industry was the Dairy Industry Enquiry Committee. The committee in its interim report of 11th July 1942 estimated butter needs for 1942-43 at 195,000 tons, made up of 92,000 tons for civilian consumption, 90,000 for the United Kingdom and 13,000 for Australian and United States forces.[1] Cheese requirements were similarly estimated at 12,000 tons for civilians, 6,000 tons for the Services and 15,000 for export, a total of 33,000 tons. Current output of dairy products was estimated to be 22 per cent below normal. For 1942-43 the committee estimated production at 25 per cent below normal.

The remedy suggested was an increase in money returns by higher local and export prices, declaring dairying a protected industry, and return of men from military units. The low level of wages was recognised

[9] Other commodities have been discussed in Chapter 8.

[1] See Butlin, *War Economy 1939-1942*, pp. 66-71. Also A. G. Lloyd, "The Marketing of Dairy Produce in Australia", *Review of Marketing and Agricultural Economics*, Vol. 18, No. 1 (Mar 1950).

as a reason for loss of labour, but the committee found the answer not in direct action to raise wages but in higher prices to make it possible for farmers to pay more. Production Executive was cautious, and directed that a public statement be made that the Government

> was considering the wages and working conditions operating in the dairying industry and was also examining the question of the returns received by producers, and proposed to take appropriate steps in connection with each of these matters to ensure a satisfactory scale of production.[2]

A sub-committee was directed to report on the best way of improving wages and conditions of employment "as a means of making the work more attractive to the employees and as a preliminary to the fixing of butter and cheese prices".

By September 1942 consumer rationing was being canvassed as the only way of meeting United Kingdom needs. The Department of Trade and Customs estimated that without rationing the United Kingdom would receive in 1942-43 49,200 tons instead of the 82,500 tons sought. Even the introduction of rationing in January 1943, the earliest practicable date, would only increase this quantity to 59,000 tons if the ration was set at eight ounces per week (the minimum recommended by the Nutrition Committee of the National Health and Medical Research Council). Rationing of local consumption to increase exports at lower prices would reduce producers' returns and it was suggested that the United Kingdom be asked to pay the local Australian price for the butter diverted by rationing. Production Executive endorsed this and directed tentative arrangements for rationing from January 1943. The British Ministry of Food proved unwilling to pay more and hence in December rationing was deferred "for six months".

But Britain still wanted the full quantity of butter, and thus a decision to ration was taken well before the six months—in April, to be operative from 7th June. As described in an earlier chapter the basis was eight ounces a week; sale of fresh cream was prohibited; control of processed cheese, ice cream, condensed and powdered milk was forecast.[3]

The ministerial sub-committee on wages found two reasons for increasing wages in dairying: low standards of living, and the inequity of freezing labour in rural industry at wages well below those in non-rural employment. It recommended that there be an immediate increase of 10s. a week for males, 7s. 6d. for females and 5s. for juveniles, but Cabinet preferred to use the recognised wage-fixing machinery. National Security (Industrial Peace) regulations[4] were amended to allow a Government reference to the Arbitration Court in the absence of an industrial dispute. The Dairy Industry Award handed down in June 1943 increased wages substantially, provided for annual leave of fourteen days a year, and for

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[2] Decision 105, 3 Aug 1942.

[3] Production Executive Agendum 117/1942, Supplement 2, 15 Apr 1943; Decision No. 266, 16 Apr 1943. Condensed and powdered milk were limited to 1942 levels by departmental action, but Cabinet was reluctant to restrict ice-cream or liquid milk consumption.

[4] Statutory Rules 1943, No. 40, 13 Feb.

overtime payment at 6d. an hour (29 per cent) in addition to the normal hourly rate for time worked in excess of the standard of 56 hours a week. Before the award was made wages had varied appreciably, but in the eastern States they had been about 35s. a week in cash. Keep was valued at about 25s. a week, and the cost advantage of living in the country at 8s. a week. Wages in terms of metropolitan equivalent were, therefore, about 68s. a week. For adult males the Court increased this to 96s. a week (an increase of 41 per cent) and thus went much further than the ministerial sub-committee had been prepared to do.[5]

Meanwhile, the final report of the Dairy Industry Enquiry Committee had reiterated its view that the best way of increasing production was to raise prices, which would enable farmers to pay higher wages as well as encourage them to increase production. However, Cabinet preferred subsidies to price increases which would have been reflected in general wage (and therefore) price increases, and would create difficulties with the United Kingdom over dairy product prices. Accordingly the *Dairy Industry Assistance Act* was passed,[6] directly linking subsidies and wage increases. £1,500,000 was allocated for subsidies for a nine-month period (£2,000,000 in a full year), distributed on a basis to be recommended by the Tariff Board.

The Tariff Board recommended that the subsidy be distributed at a flat rate in proportion to production—6s. 8d. per hundredweight for butter, 4s. for cheese—using the machinery of the Dairy Produce Equalisation Committee.

This proved to be the first group of a succession of wartime measures intended to bolster the ailing industry. No sooner had the subsidy been introduced than the industry sought further assistance: for a return of 1s. 6d. per pound which would involve a total subsidy (including the amount recently granted) of about £6,500,000. After enquiry the Prices Branch accepted the claim as justified, and on 18th May 1943 Cabinet accepted the Prices Commissioner's recommendations which were:

1. The Commonwealth Government should offer a total subsidy of £6,500,000 to be spread over butter, cheese and milk delivered to condensories, as with the present subsidy.
2. The industry be informed that this was the total amount of relief to be granted to it in excess of the existing export and domestic prices.
3. The British Government be advised that the estimated cost of production under existing circumstances was between 1s. 5d. and 1s. 6d. per pound and an increase of not less than 3d. per pound be requested in the export price.
4. Any moneys received from an increased export price should be credited to the Commonwealth Government as a contribution to the cost of subsidising the industry.
5. The subsidy be distributed through the Dairy Produce Equalisation Committee, as at present, subject to the approval of the Prices Commissioner as to the maximum price, including subsidy, to be paid for milk delivered to condensories.
6. The wage level decided by the wage-fixing authority should be made statutory.

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[5] *Commonwealth Arbitration Reports*, Vol. 50, p. 273.

[6] No. 58 of 1942.

7. The sharefarmer's interest in the increased payments should be safeguarded by giving him the right of appeal to some tribunal in cases where he considers his share of the added proceeds to be unreasonable.
8. The sale of all dairy lands and the prices at which they are sold should be subject to Government approval for the period of the war.[7]

The decisions were incorporated in a new *Dairy Industry Assistance Act*[8] which came into force in July although subsidies were paid at the increased rate from 1st April 1943. The average domestic price remained, therefore, at 1s. 2½d. per pound. Meanwhile the Ministry of Food had indicated its willingness to contribute to the cost of the subsidy on the basis of the proportion of dairy produce supplied to the United Kingdom to total output benefiting from subsidy.

Despite deterioration in the industry in 1942-43, milk production had been tolerably well maintained at 94 per cent of the production goal of 1,200,000,000 gallons. But the downward trend accelerated as the summer of 1943-44 approached; even if effective, subsidy payments were unlikely to yield short-term production benefits. The War Cabinet decision of 1st October to release 15,000 men for food production, of which 11,000 were intended for dairying, was the first step in a more direct approach. The second followed three weeks later. On 21st October Food Executive estimated production of milk would be 170,000,000 gallons below commitments in 1943-44. It therefore canvassed a reduction in the civilian butter ration to six ounces per week (saving 56,000,000 gallons),[9] but the Full Cabinet rejected the proposal.[1] A reduction by 25 per cent in the civilian ration of condensed and powdered milk was, however, approved, as was a similar reduction in the amount of milk supplied to milk bars and the pegging of ice-cream production at the 1942 level. A proposal to reduce the supply of dairy products to the Americans, including a downward revision of the United States Service ration, was referred to the Army for investigation. But the burden of closing the gap fell on exports to the United Kingdom: from a planned 70,000 tons of butter and 20,000 tons of cheese, to 45,000 tons of butter and 10,000 tons of cheese (saving 149,000,000 gallons).

Early in 1944 after savage bushfires in Gippsland, Victoria, the relative failure of the manpower release scheme and the persistent financial attractions of cash crops, milk production prospects were even gloomier. Support for the industry multiplied as rapidly as committees could generate recommendations. In February the Standing Committee on Agriculture presented the Australian Agricultural Council with a series of new proposals. Two months later Production Executive was considering a report on financial arrangements. Summarising, the outcome was an extension of assistance and a modification of existing arrangements. First, the method of payment of the subsidy was altered from a total disbursement

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[7] Full Cabinet Agendum 479.
[8] No. 37 of 1943.
[9] The reduction in the butter ration was intended to be a temporary measure for the six-month period from 1 Nov 1943 to 30 Apr 1944.
[1] Full Cabinet Agendum 554; meeting 21 Oct 1943.

of £6,500,000 irrespective of production to a flat rate payment of 3s. 5d. per hundredweight as from 1st April. The reason for this was to avoid an increase in the effective rate of subsidy which would follow any fall in production. Second, a new subsidy was introduced at the rate of 2d. per pound on fifty per cent of production to be paid during "non-flush" months, a device intended to lessen the impact of the fall in output during winter. The experiment was soon abandoned, for it merely encouraged milking in the least productive months at the expense of the most productive ones.[2] Third, subsidy arrangements were to extend for a two-year period (subject to review of the details at the end of twelve months) so as to help increase confidence about the future. Fourth, farmers were to be assisted financially to plough additional land to increase the supply of fodder. Fifth, investigations were to be made about increasing the number of machinery pools. Sixth, the Department of Commerce and Agriculture was to prepare a propaganda campaign to encourage "a maximum response to the financial assistance" that had been granted. Finally, the stock feed subsidy that had applied to wheat was to be extended to oats, barley and grain sorghum.[3]

Meanwhile, an approach had been made to the United Kingdom for an increase in butter and cheese export prices to compensate for increases in wartime production costs. Since April 1943 Australia and New Zealand had been discussing the feasibility of a joint approach for both dairy products and meat, but the attempt was abandoned at the end of the year because of differing circumstances in the two countries. A separate Australian case was presented in November 1943 on the basis of cost estimates prepared by the Prices Branch, and the following March the Government suggested that negotiations be based on a four-year contract covering all dairy products. The claim was for a 13.3 per cent increase in the export price of choice butter to 161s. 1d. sterling per hundredweight, and a similar increase in other grades and products. While the Ministry of Food was prepared to meet the claim to ensure continuity of supply, the matter was complicated by the New Zealand submission for 150s. 6d. sterling per hundredweight. Despite continual agitation from Canberra, it had been a firm policy of the United Kingdom to preserve the pre-war relationship between the prices it paid for New Zealand and Australian butter and cheese even though during the war the two varieties were marketed in Britain under the same label and at the same price. The solution reluctantly accepted was that the Australian price claim would be met, but that the price differential between New Zealand and Australian produce would be preserved. This was achieved by splitting the total payment into two components: 147s. 9d. sterling per hundredweight for choicest butter in the form of price, and the remaining 13s. 4d. per hundredweight as a grant or subsidy. Final details of the agreement were

[2] The experiment was abandoned in 1945 for the additional reason that it was almost certainly unconstitutional, for "non-flush" seasons differed between the States and payments were varied accordingly, thus involving discrimination.

[3] Production Executive Agenda 23/1944, 24/1944, 35/1944 and Supplements 1-5, 47/1944; Full Cabinet Agendum 649, meeting 10 May 1944.

not finalised until March 1945, but the terms and conditions were to run from 1st July 1944 until 30th June 1948 (with a provision for renegotiation in 1946 and 1947). During the currency of the agreement the Australian Government accepted a responsibility to maintain, and if possible increase, supplies of butter and cheese to the United Kingdom after providing for its own people, and also after providing, in consultation with the United Kingdom, for the requirements of the United States forces and United Nations Relief and Rehabilitation Administration, and after offering small quantities to other export markets.

During 1944 the decline in production continued unabated. The manpower release scheme had failed to the extent that by 10th June approval had been given for the release of only 4,121 dairy farmers compared with 11,000 sought by the end of the month. As from 5th June the civilian butter ration was reduced to six ounces a week.[4] At the same time on the recommendation of the Civilian Requirements Board a scheme was introduced to protect vulnerable groups from the reduction in milk allocations. Expectant and nursing mothers, and children under six, for example, were allocated 10½ pints per week.[5] Butter and cheese exports to the United Kingdom were cut drastically. In 1943-44 butter exports were down to 41,700 tons and then fell to 36,800 tons in 1944-45 compared with 109,000 tons in 1939-40.

In 1945 the story was much as before. In April 1944 the Government had increased the subsidy slightly and restored the flat rate payment. In January 1945 additional payments were made for drought relief, and then in June the payment was increased by 2d. per gallon for the period 1st May to 31st August and 1d. per gallon for September and October 1945. Even higher rates were approved for areas severely affected by drought. These increases brought anticipated subsidy payments (including amounts provided for fertilisers, fodder and grain concentrates) to about £13,000,000. By now it was accepted that such payments would not by themselves increase production or improve efficiency. They were made to "compensate dairy farmers for reduction of output; help to maintain production and enable them to take advantage of the situation when the weather improves and more manpower is available".[6] The war merely accentuated fundamental difficulties of the industry which originated well before 1939. Nevertheless, subsidies—necessary for wartime purposes—launched dairying on a treadmill preserving economic inefficiency.

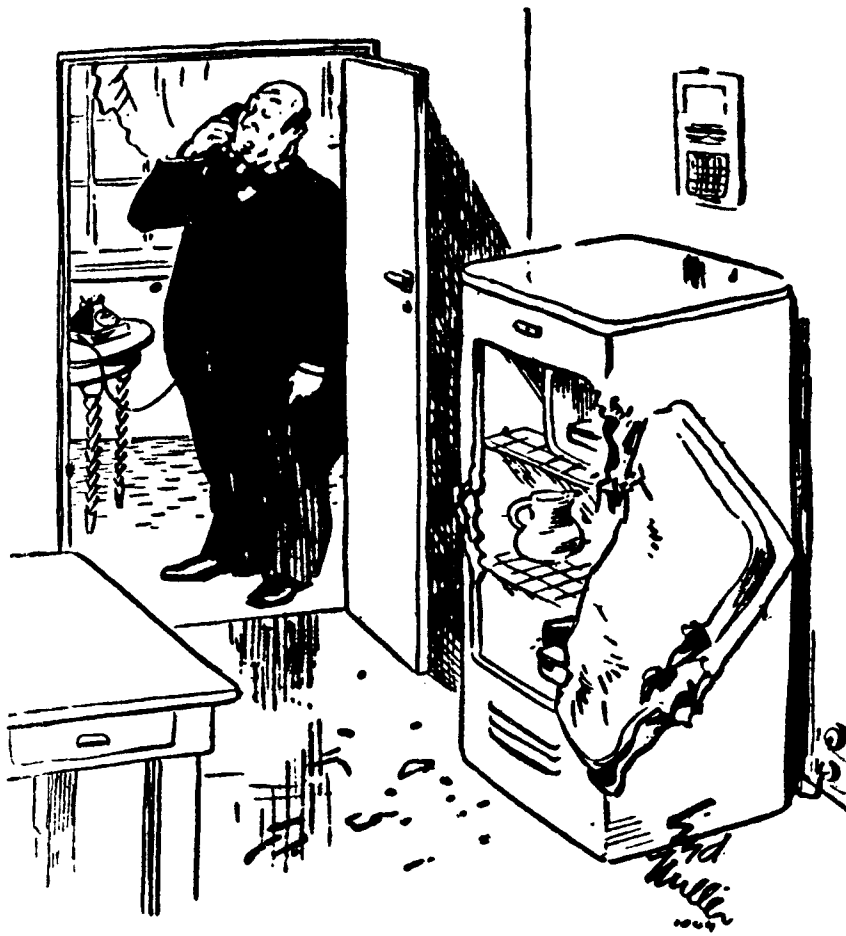
The demand for and supply of meat swung dramatically during the four years of Pacific war. Initially supply was well in excess of demand

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[4] Full Cabinet Agendum 664; meeting 31 May 1944. The original intention was to reduce the ration for a period of eight weeks, but it was not found possible to revert to eight ounces per week.

[5] The Milk Requirements Scheme was not introduced in Adelaide, Perth or Hobart as sufficient supplies were available. In other capital cities it was not used widely by eligible families and publicity was restricted. In Sydney, for example, only 17,000 directions to vendors were issued for the delivery of extra milk out of an estimated 300,000 members of vulnerable groups. Widespread publicity was not given to the scheme so as to prevent heavy diversion from butter factories and from the remainder of the population.

[6] *Digest of Decisions and Announcements*, No. 103, p. 52.



"No, Inspector, jewels are safe. It's the half-pound of rump steak that's missing!"

Miller in Smith's Weekly *(Sydney), 8 Jan 1944.*

because exports to the United Kingdom had been severely limited by the scarcity of shipping, especially refrigerated space. In an effort to make some use of the surplus, a large canning and dehydration programme was initiated. By 1943, however, demand had increased sharply with the reopening of shipping routes and the build-up of American forces in the Pacific. The market for dehydrated meat, a grossly inferior product, evaporated. In 1944 producers, hampered by manpower and transport shortages, industrial disputes in some abattoirs and indifferent seasonal conditions, were unable to maintain output. At the same time there appeared to be no limit to British and American requirements. Consumer rationing was introduced in January 1944, and during the last year of war heavy reductions were necessary in allocations to the United Kingdom and United States forces, so the war ended with demand well in excess of supply.

The problem of disposal of surplus production early in 1942 is illustrated by the fact that the planning of meat exports had to accept a figure of 110,000 tons of carcase meat (the maximum which the British Ministry of Transport expected to be able to ship) compared with actual exports of almost twice this amount in 1940-41.[7] As only minor compensation the United Kingdom sought more canned meat and dehydrated mutton. But shipping prospects deteriorated further and it seemed doubtful if even 110,000 tons could be shipped. Accordingly the Government planned a large increase in meat canning under the supervision of a Meat Canning Committee and enlarged the purchase plan which had applied only to lamb.

Up to early 1942 meat canning had been designed mainly to produce meat for export in forms which could be stored for long periods and which did not require refrigeration. The arrival of American troops in force and the great expansion of Australian forces completely changed the picture. From about 5,000 tons a year in pre-war years, output had grown to 35,000 tons in 1940-41 and 50,000 tons in 1941-42; by early 1942 the target had been raised from 70,000 tons to 110,000 tons. As canning was concentrated in Queensland coastal centres (Gladstone, Rockhampton, Townsville) where labour was scarce, it appeared that little would be available for export. In the event, however, substantial quantities were sent.

The British Ministry of Food had in 1941 sought to obtain quantities of dehydrated mutton as emergency food for areas which might be devastated by bombing, and as insurance against disorganisation by invasion. The warm-air process was expensive; the product when reconstituted as mince was unpalatable and involved great loss of weight. Initially the British request[8] in March 1942 was for 25,000 tons, but as this represented 10,000,000 sheep and would have required very large investment, the first start was cautious. The Full Cabinet allocated £200,000 for the erection of dehydrators, mainly in New South Wales and Queensland which

[7] See Butlin, *War Economy 1939-1942*, pp. 73-8.

[8] Following two experimental shipments of a ton each, the result of a Ministry of Food request in Aug 1941 for up to 20 tons for experimental use.

had the largest number of sheep of appropriate types. The first plant, at Homebush (Sydney) operated by the Army, produced to orders from the Australian Services of 14 to 18 tons a week, from the Ministry of Food of 100 tons a month, and from the War Office of 50 tons (later 350 tons) a month for Egypt. By 1944 there were nine plants in New South Wales, Queensland and Victoria.[9]

In the outcome the project was of little importance. The product proved to stand storage for shorter periods than was hoped, reducing its value as emergency food, while it was found that meat from merino sheep gave the product a strong odour. Moreover, output was never large, because though only low-grade mutton was used, the growing shortage of fresh meat meant that production of dehydrated mutton competed directly with other demands. Although the United Kingdom ordered 3,000 tons for 1944, and some 2,500 tons were required for India, these requirements were met but only after delay. For 1945 the United Kingdom ordered none at all, and only a United Nations Relief and Rehabilitation Administration order for 3,000 tons in November 1944 averted immediate suspension of production. In the event drought made it necessary for this order to be reduced to 1,000 tons. It was apparent that there was no long-term future for the product. All except two plants were closed at the end of 1945, and sold for about one-ninth of the original capital cost.

The generalised meat purchase plan embodied the same principles as the lamb purchase scheme. Back in July 1941 the Government had arranged to buy all acceptable lamb for freezing at prices slightly below the export contract price. This was continued. The enlarged scheme applied to first grade mutton from January 1942 and for beef and pig meats from March. For these the margin below the United Kingdom contract price was greater—to provide for storage costs and for subsidies on canned meat.

Soon after mid-1942 it was recognised, however, that drought (and to a lesser extent labour shortage) had so far reduced production of meat that it was unlikely that even 110,000 tons of carcase meat would be available for the United Kingdom. The meat purchase plan was amended in September so that local purchase prices were identical with contract prices. More important, comprehensive control of meat was introduced.

Positive proposals for comprehensive control of the meat industry were formulated in the Department of Commerce as early as May 1942, and contemplated displacement of the Meat Board by a small board to supervise through State committees the storage, distribution and marketing of all meat, whether for export, the Services, or domestic consumption. By July there was a note of urgency in Cabinet and departmental discussion. Clearly supply was inadequate to meet all demands, and prices were rising fast. The Department of Trade and Customs in July urged that control be established or all attempts to restrict price increases be abandoned. The Department of War Organisation of Industry, which had

[9] The first units were constructed under the supervision of a specially appointed engineer in the Department of Commerce, but in Jun 1943 responsibility for further dehydrators passed to the Allied Works Council.

surveyed the industry in April, reported to Production Executive in August that despite the interest of several departments and the existence of schemes of control, action had not followed, partly because of conflicts of interest, partly because of wide differences in estimates of the gap between supplies and needs. Production Executive appointed an inter-departmental committee to review the evidence, with instructions to report in fourteen days. Finally, on 17th September Production Executive decided

> to appoint a Meat Controller and a Meat Industry Commission consisting of representatives of the Government, meat producers, meat exporters and canners and industry employees. The Commission was empowered to control production, distribution and wholesale and retail prices of meat, and to advise Production Executive on rationing. The Meat Canning Committee was to continue to function, but under the control and direction of the Commission.[1]

J. A. Tonkin[2] of the Department of Commerce was appointed Meat Controller, and representatives of the Rationing Commission, Prices Branch and the Department of Supply and Shipping were added to the Meat Industry Commission.

The suggestion of meat rationing was, however, shelved. In November-December the Commission came to the conclusion that with better seasonal conditions, and a strong chance that shipping would not be available for the proposed export of 110,000 tons to the United Kingdom, rationing was unnecessary. Production Executive resolved that a rationing scheme should be prepared for immediate introduction if and when this proved necessary.[3]

All was not, however, plain sailing. The industry was restive and in February 1943 the Senate disallowed the regulations creating the commission. Points at issue were the powers to control stock movements and direct the sale of stock; producers wanted greater representation on the commission; they found unwelcome the presence of members representing the Rationing Commission (with the implication of early meat rationing) and the unpopular Department of War Organisation of Industry. The solution was found in replacing the commission by a slightly smaller Meat Industry Advisory Committee under the chairmanship of the Meat Controller.[4] Agitation among producers, especially in Victoria, was not eliminated, but the basic scheme of control was not again threatened.

The task before the industry in 1943 was outlined in March by the Department of Commerce and Agriculture. Requirements were 1,252,000 tons, estimated production 988,000 tons, leaving an expected deficit of

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[1] Decision 132 on Agendum 97/1942.

[2] J. A. Tonkin. Asst Aust Commr Japan 1935-37; Ext Trade Sect 1938-39; Asst Sect Marketing Div Dept Comm 1940-49; Dir of Marketing 1950-52. B. Maryborough, Vic, 3 Feb 1900. Died 17 Dec 1952.

[3] Decision 188, 10 Dec 1942.

[4] National Security (Meat Industry Control) Regulations 1943, No. 63, 20 Mar. The advisory committee comprised eleven members, four producers' representatives, and one each representative of the Department of Commerce and Agriculture (chairman), Department of Supply and Shipping, meat employees, meat exporters and canners, country meatworks, slaughtering establishments, and retail traders. Producers had their way to the extent that their representation was increased by one, and membership of representatives of the Prices Branch, the Rationing Commission and the Department of War Organisation of Industry was downgraded to non-voting status.

264,000 tons. The downward trend in production was attributed to the difficulty of moving cattle from the inland to the Queensland killing centres on the coast because of labour and transport shortages, to persistent industrial disputes in meatworks as well as to a high level of absenteeism and short-time working and, in the case of pigmeat, to shortages of grain

MEAT REQUIREMENTS AND ESTIMATED PRODUCTION, 1943
('000 tons)

	Requirements		Production	Deficit
	Services and Ministry of Food	Civilians		
Beef and Veal	229	399	513	115
Mutton and Lamb	215	272	381	105
Pigmeat	60	77	94	44
Total	505	748	988	264

Note: Discrepancy due to rounding.

feed and inadequate breeding techniques. A tentative step towards the improvement of industrial relations in meatworks had been taken in Queensland shortly before with the formation of Production Committees in each slaughtering centre. Committees comprised equal representation from meat exporters and the Australian Meat Industry Employees' Union for the purpose of bringing closer co-operation between employers and employees, and to help increase production and avoid wastage. In Queensland and New South Wales, however, disputes continued to disrupt the slaughtering programme, and to discourage producers from responding to the Government pleas for more stock to be marketed.

More positive steps were taken to encourage production in June 1943 with the introduction of the Pigmeat Acquisition Plan. Due largely to the scale of American requirements, the general meat shortage was most pronounced in the case of pigmeats. A standard complaint of producers of all classes was that their returns were not stabilised, whereas all processing and distribution margins (and returns) were fixed. The effect of the plan was to offer a guaranteed price for pigs through government acquisition of all supplies of carcases sixty pounds and over chilled weight on hooks. Carcases were then sold back to operators who had been issued with a licence under the meat control regulations. The plan encouraged the trend towards the production of baconers which by the end of the war represented 66 per sent of total output (44 per cent in 1938-39). More important, the price guarantee helped to stabilise the industry for the remainder of the war in the face of declining milk production and the growing shortage of grain concentrates.

Following the announcement of the introduction of meat rationing in October 1943 for commencement the following January, plans were made to extend the pigmeat plan to other sections of the industry. Rationing was expected to lower returns to producers, for a smaller share of total

output would be absorbed by the more lucrative domestic market. Accordingly, guaranteed prices were introduced for beef, mutton and lamb from March 1944. Beef prices were to be based on those ruling in the Greater Brisbane area as the centre of the meat market, and were to be the same whether for export, civilian or Service requirements. There were to be ceiling prices for mutton and lamb for civilians and for the Services, for whom specific quantities were to be taken over. Mutton and lamb for export was to be taken over by the Government at their own prices for mutton and the United Kingdom contract price for lamb. However, the scheme did not involve compulsory acquisition. Producers were to have the right either to use ordinary trade channels or to submit their stock to any registered meatworks for purchase at the government price if they were dissatisfied with trade prices. Except for minor differences, the effect was of course to establish price uniformity.[5]

A consequence of rationing and acquisition at guaranteed prices was the need for enlarged reserve stocks of meat. Stocks would be necessary to supplement the ration when normal production was inadequate; greater storage capacity would be required when meat offerings to the Meat Controller reached seasonal peaks. Authority was given, therefore, for the expenditure of about £425,000 to increase storage capacity to a maximum of 20,000 tons.

The acquisition scheme also stimulated a quest for revision of United Kingdom contract conditions. Initially the emphasis was on an increase in contract prices and, as noted earlier, a proposal covering both meat and dairy products was submitted in April 1943. By early 1944 the emphasis in the meat negotiations had switched to the achievement of a long-term purchase contract so that the Government would have some safeguard against the accumulation of large unsaleable stocks of meat (a theoretical possibility in the event of an unexpectedly early end to the war). As in the case of dairy products, the United Kingdom's acceptance of a long-term purchase agreement for the four years October 1944 to September 1948 was announced in principle in September 1944. Unlike dairy products, however, there was no significant variation in prices, and the Government maintained virtually the same prices to producers for export products.

After the introduction of guaranteed prices, the Meat Controller concentrated on ways of improving the movement of stock to slaughter houses, and the elimination of bottlenecks at killing centres. In June 1944 Production Executive approved the erection, partly at Commonwealth expense, of a limited number of inland killing works to relieve pressure on the main export and metropolitan centres.[6] The proposal was seen, however, as of benefit primarily in the post-war period.

Despite constant pleas by the Prime Minister and others for curtailment of industrial action by meat workers, strikes continued to disrupt supplies. The main trouble spot was Homebush abattoir (Sydney). Responsibility

[5] Full Cabinet Agendum 593; Decisions, 17 Jan and 15 Mar 1944.
[6] Production Executive Agendum 49/1944 (revised).

appears to have been divided fairly equally between the State Meat Industry Commissioner and the workers. Scully, Minister for Commerce and Agriculture, was sufficiently moved in January 1945 to propose in Cabinet that the Commonwealth assume responsibility for the abattoir and remove the commissioner. But the commissioner had been appointed by the New South Wales Parliament and could only be removed by a vote of both Houses of that Parliament. The Cabinet appointed a sub-committee,[7] but by the time discussions were held the end of the war was too close for National Security Regulations to be invoked.

In 1944 meat production held up remarkably well in view of indifferent seasonal conditions, and constant complaints from producers about the inadequacy of railways, deterioration of stock routes, delays and rough treatment of stock at abattoirs, and so on. Production slightly exceeded the target of 1,000,000 tons, although largely because of a sharp rise in pig production under the stimulus of the pigmeat acquisition scheme and feed-grain subsidies. Supplies were, of course, inadequate to meet the very large requirements of the United Kingdom and United States forces. Approximately two-thirds of available supplies were allocated to civilians, and the remaining one-third equally between Australian Services, United States forces and exports to the United Kingdom. The ration of 2¼ pounds of butcher's meat per adult per week had not made any serious impact on eating habits. Indeed, rationing had failed in its purpose of allowing greater exports. The intention of rationing had been to lower civilian consumption to 540,000 tons, but because of administrative loopholes the domestic trade absorbed 630,000 tons.

But in 1945 drought demonstrated the greater susceptibility of the industry to seasonal influences than to government intervention. Production was expected to fall by 6.5 per cent, but the actual fall proved to be 12 per cent. The Combined Food Board in Washington estimated total meat deficiency in Allied countries at 3,622 million pounds, and the London Food Council urged as a matter of the highest priority a reduction in Australian domestic consumption to allow a greater contribution to world needs.[8] As positive steps were unavoidable, the adult ration was reduced in February 1945 by 8¼ per cent to 2 pounds per adult per week and again in May 1945 by a further 12½ per cent to 1.84 pounds per head (still much higher than in the United Kingdom, United States or Canada). The Rationing Commission was instructed to tighten administration so that, with the ration cut, consumption would fall to a maximum of 570,000 tons.[9] Even so shipments to the United Kingdom were expected to fall from 155,000 to 133,000 tons. In the event, domestic consumption fell to 562,000 tons but only about 127,000 tons was exported to the United Kingdom.[1]

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[7] Full Cabinet Agendum 780; meeting, 18 Jan 1945.

[8] Included in Production Executive Agendum 30/1945.

[9] Production Executive Agendum 112/1944.

[1] The 1945 figure of exports to the United Kingdom is approximate because official statistics were collected on the basis of financial rather than calendar years. The figure used here includes canned meat, and was cited by the Minister for Trade in 1947. See *Digest of Decisions and Announcements*, No. 124, p. 30.

The meat industry was comparatively untouched by government intervention during the war. The pig industry proved responsive to the incentives that were offered, but the grazing divisions were much less amenable. Indeed, the scope of policy was limited. Production was sufficiently high to ensure adequate civilian consumption and to fill the needs of the Services. Much more could have been done to meet external requirements by attractive contract arrangements (as in the case of vegetables), but financial returns were already reasonable. By implication, the Government ruled out the payment of subsidies or the increase of prices above ceiling figures as an unwarranted addition to inflationary pressure. Whether more should have been done to encourage exports is a nice point. In terms of narrow self-interest, the Government was probably wise not to force slaughtering to a point which would have damaged prospects in the post-war period.

At the end of the war government responsibility reverted to its traditional concern—export management. The *Meat Export Control Act* was amended in 1946, the meat industry control regulations were revoked, and the Australian Meat Board reconstituted.

The pressure on meat supplies late in the war increased demand for alternative sources of protein, notably fish. Since 1939 the fishing industry had declined sharply because of shortage of labour and fuel, and the requisition of vessels. Before the war domestic consumption was about 140,000,000 pounds (20 pounds per head), of which between thirty and fifty per cent was imported. Imports virtually ceased with the outbreak of war, and by 1943 the local catch had declined to between 50,000,000 and 60,000,000 pounds. For 1943-44 minimum requirements were estimated at 77,000,000 pounds, but as there was no possibility of achieving this figure the production goal—the first for the industry—was set at 63,000,000 pounds to allow ordinary civilian consumption at the rate of 6½ pounds per head per annum (much higher rates for the Services, hospital patients, and convalescents).[2]

Given the individualistic nature of fish marketing in most States, there was little that the Controller of Fish in the Department of War Organisation of Industry could do to achieve the allocations desired by Production Executive. In Melbourne and Sydney marketing was under the loose control of municipal councils; fish was sold by private treaty making it impossible for priorities to be enforced. Restaurants and hotels were obtaining much more than their fair shares at the expense of institutions and retailers. (The Service need was for canned fish.) Black marketing was rife.

Any solution depended on the introduction of central marketing authorities along the lines of the State government-controlled Brisbane Fish Board, and thus relied on the co-operation of the States. Because of expected opposition from Victoria, attention was restricted to Brisbane and Sydney where priorities were enforced by the issue of certificates

[2] Production Executive Agendum 88/1943.

to purchase corresponding to the established priorities.[3] The scheme took some time to develop, and was in use only for the last year of war. Some redistribution of supplies was achieved in Queensland and New South Wales, but not general reallocation between deficit and surplus States.[4]

At the beginning of 1942 prospects for the egg industry appeared dark.[5] The British Ministry of Food suspended egg shipments, preferring to give priority in refrigerated shipping to meat. But the situation changed rapidly. Production was falling, partly because of manpower shortage but also because of low prices realised in 1941. On the other hand Service demands expanded rapidly, and these, together with domestic consumption and modest exports to New Zealand, left little egg powder or pulp available for export to the United Kingdom.

The first solution adopted in August 1942 was to raise the price of eggs supplied for drying. Within a month it was recognised that these prices were unnecessarily high, but as they had been announced the Government adhered to them, accepting the risk of excessive supply, a risk which did not materialise. But there were other and less tractable problems. Service demands were concentrated in Queensland, to the advantage of producers in that State; there remained, despite transport restrictions, a great deal of avoidable cross-traffic in eggs; distribution of inadequate supplies to civilians was haphazard, while there was an overall need to establish priorities between the major classes of civilian and Service demands. Towards the end of 1942 these came to a head in proposals for the institution of centralised control of the industry.

This was welcome to the industry, which had for long seen a Commonwealth-wide marketing scheme as a means to higher prices; recognising this the Government had more than once fended off such proposals. Now that the need to act was accepted, Production Executive adopted the principle but rejected the means proposed by the Department of Commerce—an Egg Industry Board with a majority of producer members. In its stead it provided in April 1943 for a Controller of Egg Supplies to operate through the existing State Board machinery,[6] a procedure which left the organisation of the industry much as before but enabled Commonwealth policy to be implemented on a uniform basis, for example by directives as to quantities to be dried or pulped.

Under Commonwealth control egg production increased substantially from 80,000,000 dozen in 1942-43 to 89,000,000 dozen in 1943-44 and 104,000,000 dozen in 1944-45, not least because of favourable prices. Nevertheless demands, particularly for the Services in the South-West

[3] Decision 520 of 1 May 1944 on Production Executive Agendum 130/1943 and Supplement 1.

[4] As a post-war measure the Government in 1944 initiated discussions with State governments about the formation of fishermen's co-operatives. Production Executive Agendum 74/1944 and Supplement 1.

[5] See Butlin, *War Economy 1939-1942*, pp. 71-3. Also L. C. Yorke, "The Production and Marketing of Australian Eggs", *Review of Marketing and Agricultural Economics*, Vol. 18, No. 3 (Sep 1950).

[6] National Security (Egg Industry) Regulations, Statutory Rules 1943, No. 96, 15 Apr.

Pacific Area, continued to grow, and in 1943-44 there were no exports other than a small quantity of pulp. No eggs in any form went to the United Kingdom. Consumer rationing was rejected as impracticable but from February to July 1945 (the period of seasonal shortage) special arrangements were made for "vulnerable" groups to receive, by a system of registration with a retailer, three eggs per week for children under five years and six eggs per week for expectant and nursing mothers.

By this time the war was obviously nearing its end, and Service demands were contracting. On the other hand, the United Kingdom was already seeking substantial supplies, and had concluded on 1st July 1944 a three-year agreement which, in effect, undertook to accept quantities of eggs likely to exceed what would be available. Preparations were made for the abandonment of Commonwealth control, but in the event this was delayed until the end of 1947 when control, as far as export was concerned, was handed over to the Australian Egg Board. This board, the outcome of protracted negotiations and conferences, represented at last the achievement of the industry's objective of export control by a board with a majority of producer members. Its first major activity was negotiation of a new three-year agreement with the United Kingdom for the period July 1947 to June 1950.

The sugar-growing industry had been rapidly and severely affected by withdrawal of labour, equipment and fertiliser. Output had already fallen since 1939, but plunged in 1942 and 1943 to a point which made necessary stringent consumer rationing, sharp reductions in the amount made available for the Services and the Americans, and comprehensive efforts by the Government to stem the tide. These efforts led to a partial recovery in 1944-45, but a more serious situation was averted by a narrow margin only.

The supply of sugar had begun to cause concern early in 1942.[7] Queensland, the main source, had experienced a steady fall in area cultivated, in sugar produced, and in yield per acre. It was known that acreage cultivated had fallen still further in 1942 to 316,798; at the outset of the cutting season (June-November) lower yields and substantially reduced outputs were expected.

	Acres cultivated	Sugar produced, tons	Yield per acre, tons
1939	353,996	891,422	3.41
1940	350,851	759,446	2.86
1941	334,787	697,345	2.82

Source: Bureau of Experimental Stations (Queensland), Report 1947.

Action was taken to increase the supply of labour for cutting and harvesting. By July 1,000 men had been temporarily released from the Services and a further 2,300 were sought. A special Sugar Workers'

[7] See Butlin, *War Economy 1939-1942*, pp. 83-5.

Register was established in the Directorate of Manpower, in the hope that men so released—and seasonal workers drawn from other industries —might be recruited again in the following seasons.

The other immediate action was the decision in August 1942 (with effect from the 29th of the month) to ration sugar, and, as recorded in the account of rationing, each consumer was allowed one pound per week, with special releases of six pounds per head for jam-making, fruit-preserving, etc. Catering establishments, hospitals etc. were given special ratings, while manufacturers were allowed supplies at their "normal" rate of use. In October supplies of sugar to distilleries producing "wet" or ethyl alcohol were pegged. Cessation of production was not accepted, although distilleries used substantial quantities of sugar, involving much wasteful transport. One at Griffith, New South Wales, for example, used sugar which required a 400-mile rail haul from Sydney, to which most of the alcohol produced was despatched.

Production for 1942 proved to be low: 605,000 tons in Queensland, and prospects for 1943 were poor. To this result several factors contributed. Fertiliser supplies were inadequate and not always of suitable types. (Sugar required quick-acting nitrogenous compounds, sulphate of ammonia being preferred.) Labour was scarce, and the men available in 1942 included many young soldiers inexperienced in and unsuitable for the work. Ideally cane should be cut during a very limited season, crushed immediately, and the raw sugar removed from the tropics as soon as possible. Labour difficulties, insufficient mill storage, and transport delays all contributed to a fall in production. Moreover, after mid-1942 some 300 heavy tractors were impressed from the sugar industry by the Allied Works Council. (Farm equipment was designed for use with tractors; horses, even if any had been available, were not an alternative.)

Storage capacity was expanded during the war as follows:

Season	Mill storage space tons
1939	122,500
1940	158,000
1941	186,000
1942	291,000
1943	297,000
1944	301,000
1945	307,000

Additional storage helped to offset irregularities in shipping of raw sugar, but placed financial burdens on millers. In itself it did nothing to increase output, but it did mean stocks could be built up and loss from delays in crushing avoided.

The Inter-departmental Committee on Production Goals surveyed the situation in June 1943. Output for 1943 was estimated at 570,000 tons, optimistically as it turned out. Stocks then held totalled 139,000 tons of which 25,000 were held pending shipment to Britain and 25,000 were in emergency supply depots. Allowing for filling British orders (already

received) for 100,000 tons, 206,000 tons for civilians, and 190,000 tons for manufacturers, total consumption to June 1944 was estimated at 621,000 tons. Thus, at the beginning of the 1944 crushing season stocks would be down to 38,000 tons, or four weeks' consumption.

By December the position was much worse, production now being estimated at 515,000 tons, which was 55,000 tons below the June estimate and 112,000 tons under 1942 production. Consumption at approved levels would leave a shortage of 14,500 tons, leaving as a Department of Trade and Customs submission to Production Executive said: "no alternative but to reduce consumption of sugar immediately". That body agreed to end the supply of sugar for making wet alcohol and to curtail severely that for anhydrous alcohol. An inter-departmental committee was given eight weeks to produce a plan to stimulate sugar production for the 1944 season. These were fortunate decisions, for actual total production (including New South Wales) for the 1943 season proved to be only 523,000 tons, slightly more than the revised estimate; yield per acre in Queensland was down to 2.12 tons.

The inter-departmental committee's report of February 1944 dealt with two problems: control of consumption until the 1944 crop became available, and increased production. Need for the first came from an estimate that, without remedial action, stocks would be down to 24,700 tons by June 1944 whereas 50,000 tons was regarded as the minimum safe level for working purposes. Proposals were: that exports to the United States (by ballast back-loading) be suspended; that jam-making issues be not made; that Defence orders for goods with a high sugar content (particularly those for American forces) be curtailed; that Services use up part of reserve stocks they held; and that 10,000 tons be taken from civil emergency stocks, then standing at 21,000 tons. All these measures were adopted by Production Executive.[8]

Measures to increase production, approved by the War Cabinet, included directives to the Directorate of Manpower to improve labour supply; to the Allied Works Council to facilitate the release of experienced cane-cutters, and to return to the industry tractors impressed in 1942; and to the Department of Commerce and Agriculture to give sugar high priority in the supply of fertilisers.[9]

This represented the turning point for the industry. From March onwards the Allied Works Council returned tractors, after partial reconditioning, at the rate of 20 to 25 a month, to a total of 155. The fertiliser position improved, despite demurrers from the Department of Commerce and Agriculture concerned about the effect on other essential crops, particularly vegetables; that industry was induced by a fertiliser subsidy to rely more on nitrate of soda, less suitable for sugar than sulphate of ammonia. Transport, both rail and sea, improved, the more easily because the war situation eased pressure from Service demands. A Directorate of Manpower report at the end of February disclosed that for 1943 a total of

[8] Production Executive Decisions 422, 431, 465, 481, 498, 583 on Agenda 126/1943 and Supplements 1 to 5.

[9] War Cabinet Minute 3553, 23 May 1944.

14,000 workers had been engaged, of whom 10,000 were supplied by the actions of the Directorate. Of these, 1,897 were released temporarily from the Civil Constructional Corps, 740 were soldiers, and most of the rest were men with experience in sugar harvesting who were on the Directorate's Sugar Workers' Register. The use of soldiers had not been successful, but for the rest it was expected that they would all be available again; the important question was how to secure additional labour. One such source, not numerically large, was naturalised Italians who had been released from internment in September-October 1943, including a number of farmers and cane-cutters who, for security reasons, had not been allowed previously to return to Queensland. The Directorate of Manpower estimated that the industry needed an additional 750 permanent experienced workers, which it proposed to secure by release from the Civil Constructional Corps and the Army. Relative decline in the importance of some other rural industries would permit transfer of another 500 experienced seasonal workers, while registers were being combed to locate those who had worked in the industry but were not on the Sugar Workers' Register. Some 700 cane-cutters were known to be in the Army, and their temporary release could be sought. Overall it appeared that a substantial increase in the labour force compared with 1943 was practicable.

This in fact proved to be the case, and 1944 production rose to 669,943 tons—sufficient to meet the civilian ration, add to reserve stocks, and provide a small amount for export. In 1945 output was only 4,000 tons less. Indeed, the focus of difficulty shifted from production to transport, particularly as the result of labour troubles on the wharves in the last year of war.

In all industries discussed so far, the main tasks of policy were to adjust quickly to sudden changes in the supply of shipping and to maintain production in the face of depletion of labour and equipment. In the case of potatoes and vegetables the policy requirement was quite different. These industries were small and fragmented; they were oriented towards domestic rather than overseas markets. The need after Pearl Harbour was for a large and rapid increase in production, but it was clear that demand could not be sustained after the war. Promotion of these industries involved the introduction of new growing techniques, new crops, new marketing arrangements, new methods of processing, and new administrative devices for offering appropriate incentives. After serious supply shortages in 1942, these industries responded quickly to the incentives that were offered and met most of the reasonable needs of civilians, the Services and American forces.

Early in 1942 a serious shortage of potatoes developed, primarily because of greatly increased Service demands which were more than thirty per cent of normal production, and also because of a poor crop in 1941-42. There were fears that price increases would lead to early exhaustion of supplies; there was already evidence of consumption of seed potatoes as food endangering the next crop. The production goal for 1942-43 was set

at 500,000 tons compared with the previous average level of output of 340,000 tons. To organise growing and control an Australian Potato Committee was formed.[1] To induce growers to expand output a guaranteed price was assured, and the committee was given power to prevent sale of seed potatoes and to regulate the flow of pot potatoes to the civilian market.[2] The lesson of earlier controls was applied in limiting membership of the committee, and in not making it representative of grower or merchant interests.

High priority given to growers for the allocation of superphosphate together with import of mechanical diggers from the United States under Lend-Lease were measures sufficient to encourage a rapid expansion in acreage under cultivation. Compared with other vegetables, potato growing was not labour intensive, and the guaranteed price offered an adequate incentive. In 1942-43 actual production was only slightly lower than the goal. In 1943-44 the goal, altered to an acreage basis, was again increased substantially and production exceeded the target. In 1942 and 1943 civilian consumption was on average slightly less than 1½ pounds per head, but the 1943-44 goal allowed this to be increased to 2 pounds per head despite heavy and still rising Service demands.[3] In 1944-45 acreage was again increased to allow average civilian consumption to rise to 2¾ pounds per head. Because of drought the goal was not achieved on this occasion but civilian consumption was increased to about 2½ pounds per head.

The high priority given potato cultivation reflected not only the scale of Service requirements but also the potato's high food value in relation to the amount of labour and materials required in production. The desired consumption level of 2¾ pounds per head was set on the recommendation of the Nutrition Committee of the National Health and Medical Research Council which saw the potato as compensating for protein and vitamin "C" deficiencies caused by shortages of other foods. The success of the industry in meeting requirements after the potato "famine" of 1942-43 illustrates the capacity of policy to intervene in the production of annual crops. But success created severe problems of post-war adjustment. In 1944-45 acreage was 233,000 compared with 104,500 in 1939-40; many of the older areas were "potato sick" through continuous cropping; and the expectations were that the producer would face long periods of glut before production was reduced sufficiently.

As with potatoes, so with vegetables in general—although in this case the success story requires some qualification. Paralleling the chronology of potatoes, a severe shortage of vegetables developed early in 1942 and

[1] Production Executive Decision 35 on Agendum 23/1942.

[2] Statutory Rules 1942, No. 199.

[3] After the introduction of ceiling prices in 1943, special arrangements were necessary to induce growers to spread deliveries through the year. Given the strength of demand which maintained prices at or near the ceiling, producers were inclined to market immediately and not wait for the higher prices that were available previously between August and October. To encourage delayed deliveries, a premium of £2 per ton was introduced in 1943 for supplies made available late in the season. For the same reason, the Potato Committee was instructed to acquire a stock-pile of 10,000 tons for release between August and October. This replaced the unsuccessful attempt to impose weekly marketing quotas in the two "surplus" States, Tasmania and Victoria. Production Executive Agendum 47/1943 and Supplements 1 and 2.

at the same time a critical position was exposed in the supply of vegetable seeds. In January 1942 a Vegetable Seeds Committee was established and, arising out of its investigation, a positive plan to expand output was adopted in March.[4] It was estimated that 1,546 acres of seed crop were required to supply seed for 1943, and a reserve to meet another crop failure such as the one which had precipitated the crisis. Seed merchants had already made normal contracts with growers for 711 acres but for the rest, since merchants could not finance more, the Government stepped in, allocating £95,000 for advances to growers and for the purchase of reserve supplies. The committee was authorised to make contracts with growers for the purchase of seed.

Late in 1942 it became clear that these arrangements were not enough. The number of Allied troops to be supplied had grown greatly, while it had also become clear that the demands were concentrated in special areas. This problem was especially acute in north Queensland where troop concentrations were especially large; the impact on civilian food supplies was severe, particularly because of the practice adopted by the United States Army of buying wherever food was available. The main shortage was fresh fruit and vegetables, which in mild form was normal even in peacetime.

There were a succession of related responses to what had become, by late 1942, a serious matter. First, two experts were despatched to the United States where they purchased 50,000 pounds of seed. Australia had always been heavily dependent on imported vegetable seed, the winter crops of 1942 had been poor once again, and America was now the only source of supply in large quantities. In addition, the experts obtained special equipment and instructional films for mass vegetable production.[5] Vegetable growing in Australia was carried on by large numbers of small cultivators clustered around capital cities; large-scale mechanised cultivation along American lines was uncommon.

Second, plans for a large increase in vegetable dehydration and canning capacity was announced. In June 1942 the War Cabinet increased the vote for the construction of dehydration plants from £100,000 to £200,000 although at this stage the Services, being close to sources of supply, relied mainly on fresh vegetables. In September 1942, however, the Services indicated a need for about 20,000,000 pounds of dried vegetables to the end of 1943 for consumption in tropical and other forward areas. Accordingly, authority was secured for increased expenditure of up to £500,000 for construction of plant by the Allied Works Council.[6] By the end of 1943 dehydration capacity had been increased to 12,000,000 pounds a year and during 1944 was increased further to about 21,000,000 pounds a year. Similarly, canning capacity was greatly extended largely using American equipment supplied through Lend-Lease. In 1938-39 10,300,000

[4] Production Executive Decision 28, 10 Mar 1942.

[5] Douglass-Pozzey Mission Report, 5 Nov 1942.

[6] Production Executive Decision 230, 17 Feb 1943, on Agendum 12/1943. Capacity was subsequently increased to reach 30,000,000 pounds by 1945 at a total capital cost of about £1,000,000. Production Executive Agendum 101/1944.

pounds of canned vegetables were produced. Production capacity had already increased substantially to around 40,000,000 pounds in 1942, but was to be more than doubled in 1943 and 1944. In fact, the efficiency of the American equipment allowed capacity to be increased by the end of the war to about 190,000,000 pounds (including potatoes).[7]

Third, the Food Council unfolded in January 1943 what was described extravagantly as a National Vegetable Production Plan which contained elements in common with the British programme "Vegetables for Victory". The substance of the plan was a rapid expansion in contract vegetable growing and in seed production. The objective was to achieve self-sufficiency in vegetable seed, to expand fresh vegetable production to allow civilian consumption at the rate of 120 pounds a year (a figure derived from the Nutrition Committee of the National Health and Medical Research Council), and to expand supplies for canneries and dehydrators to fill Service needs and accumulate emergency reserves. The method of implementation was, however, along established lines. Contracts were to be let by State Departments of Agriculture in consultation with District War Agricultural Committees in conformity with overall Commonwealth planning. To provide additional labour, the Women's Land Army was to be expanded and more Italian prisoners of war were to be set to work. Contracts were to be let to experienced cultivators who were to receive assistance in the allocation of fertilisers and machinery. To make better use of scarce machinery, pools were to be formed by District War Agricultural Committees. Vegetables which were suitable for canning and/or dehydration were to receive highest priority in the allocation of contracts. Thus, contracts were to concentrate on navy beans, beetroot, cabbages, carrots, onions, parsnips, peas, tomatoes and swede turnips. Vegetables largely outside the contract system were french beans, cauliflower, cucumbers, lettuce, marrows, sweet potatoes, pumpkins, silver beet, and white turnips.

An important element in the plan was publicity to encourage home vegetable growing. Wide publicity was given to the home-growing campaign, together with the press publication of cultivation notes prepared, unfortunately, in Melbourne for uniform distribution. Thus, the same notes on bean cultivation appeared simultaneously on 14th September 1943 in Melbourne, Perth and Hobart without recognition of climatic differences. State Departments of Agriculture were justifiably indignant, and thereafter this particular activity was left to the States. It is not possible to judge the impact of the campaign with any degree of reliability. Certainly home-growing increased, but there is not much evidence to indicate that it made anything like the progress that was achieved in the United Kingdom where the need was much greater.

At times the contract system posed problems capable of teasing the most flexible administrator. When open market prices were above contract

[7] This is an approximation derived from a Production Executive survey of the post-war problem of disposing of large quantities of canned vegetables. The figure of 190,000,000 pounds excludes tomatoes. Production Executive Agendum 61/1945.

prices, growers ignored their obligations to deliver under the contract. On 17th March 1943, for example, the Minister for Supply, replying to parliamentary criticism of government action to prevent tomatoes from certain areas reaching the Brisbane market, reported that Queensland farmers on average were delivering only 18 per cent of their contract crops, and then only when market prices were below contract figures. This problem was reduced if not eliminated with the introduction of ceiling prices for vegetables in July 1943. Conversely, an expected flush of carrots in Victoria early in 1944 found labour in canneries inadequate to process the whole offering, portion of which was lost. Nevertheless, the plan did lead to a substantial increase in supplies, sufficient to meet most Service and civilian requirements. In 1943-44 acreage was well below the target figure but still represented an increase of 21½ per cent over the previous year. In 1944-45 the production goal was set so as to allow a rise in civilian consumption to 150 pounds of fresh vegetables per head per annum and, despite drought and the failure of the green pea crop, a further increase of 15 per cent in acreage was achieved.

Arrangements under the national plan were inadequate, however, to meet the special problems of north Queensland where civilians continued to protest, with justice, against the Services draining off local supplies, especially of products such as vegetables which would not have survived the long transport haul from southern areas even if the cost had not been prohibitive. Accordingly Production Executive determined in September 1943 that the Government must itself undertake vegetable production in the area.[8] The plan was for five farms totalling 1,000 acres; labour estimated at 180 men was to be obtained by the release of Army trainees who volunteered. It was estimated that, at least, the Commonwealth would be no worse off than by purchasing supplies on the open market at inflated prices.

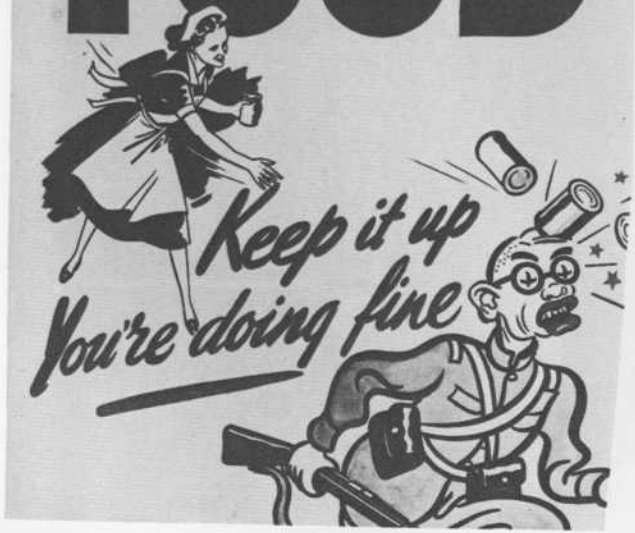
The project failed almost completely. Army volunteers could not be found and reliance had to be placed on Italian prisoners of war under supervision whose work was inefficient. Preparing the ground was so delayed that there was only a nominal planting in the 1943-44 season. By 1944-45 Army requirements in the area had so diminished that production, higher than in the previous year, was not needed. The farms had been cultivated in three groups. Two of these were disposed of in mid-1945, and the remainder shortly after the end of the war. To 30th June 1945 total cost (including capital expenditure) amounted to £138,000 while proceeds from the sale of vegetables came to £17,000.[9] The judgment that the Commonwealth could produce to compete at "inflated open market prices" was, in retrospect, sadly astray.

While emphasis was given during the war to contract production and the encouragement of large-scale cultivation, the small individual grower with a few acres near metropolitan markets remained the dominant type of

[8] Decision 362, 15 Sep 1943, on Agendum 84/1943.

[9] Production Executive Agendum 55/1945. Further losses were incurred before work on the remaining property was wound up; Production Executive Agendum 55/1945, Supplement 1.

FOOD IS A MUNITION OF WAR!





Dairy Farmers, too, have a victory to win

THE MOST URGENT need on the food front to-day is greater milk production. Of all the foods we provide for our own people, for the United Kingdom, and for Australian, British and Allied forces, processed milk, cheese and butter are the most vital. To meet even the bare requirements it is necessary that milk production should be increased on every dairy farm.

The Government is providing every possible assistance to increase production. The butter, cheese and processed milk subsidy has been increased to £7,500,000 and will *not* decrease, as before, with greater production. Fertiliser subsidy, machinery pools, and marketing agreements are other practical and helpful measures. The dairy industry also has been allotted FIRST PRIORITY in manpower, machinery and materials.

Dairy Farmers! The rest is up to you. For more information, advice, or help in increasing production, apply to your local War Agricultural Committee or Butter Factory Manager.

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vegetable producer. But the small producer would not have achieved the results he did without substantial changes in techniques. The changes centred on farm mechanisation. Despite deficiencies in the agricultural machinery production programme undertaken by the Department of Munitions, sufficient progress was made with the help of Lend-Lease imports to introduce most small growers to the benefits of rotary hoes, potato diggers, irrigation outfits, spraying equipment and the like. Many farmers were resistant to the new techniques, and initially made poor use of the equipment that was available. But District War Agricultural Committees made progress in improving usage. Important here was the operation of machinery pools, and hire purchase arrangements connected with the expansion of the canning programme. Mechanisation was an integral part of large-scale canning, but it was appreciated that growers would be reluctant to undertake the heavy initial investment involved in full mechanisation even if there had been sufficient machinery to go round. The solution was the formation of machinery pools, not only to make better use of available equipment but also to avoid overcapitalisation of the farm. Used mainly in the Murray and Murrumbidgee irrigation areas of New South Wales, the cannery field mechanisation projects were based on the hire to farmers of machines and men to operate them. The machinery was owned by the Government and the operators were Government employees. Such pools and other general-purpose pools were instrumental in transforming agriculture on many small farms in Australia (with the qualification that dairy farmers remained highly resistant to any change). The pools were continued on a revised basis after the war, and were used to assist settlement of former soldiers on the land.[1]

ALLOCATION

Perhaps the most difficult aspect of food policy was the allocation of limited supplies between the many high-priority demands that accumulated rapidly in 1943 and 1944. The Government had an obvious obligation to maintain a reasonable dietary standard for civilians and the fighting forces; it had responsibilities by formal contract, tradition and sentiment to make available as much as possible to the United Kingdom; it had entered into a formal undertaking to maintain United States forces in the South-West Pacific Area; and in 1944-45 it had a moral obligation to meet some of the needs specified by United Nations Relief and Rehabilitation Administration. After the turning point of the war in the Pacific early in 1943, the Allies naturally saw Australia as a supply base for food and raw materials. The nature of the military over-commitment was not understood in London and Washington, and the need for reduced allocations gave rise to constant criticism—particularly in the United Kingdom which suffered most from the Australian reluctance to confront the Americans about the scale of their ordering.

In 1942 and 1943 an explicit hierarchy of priorities for the purpose of

[1] For a review of farm mechanisation during the war, see Production Executive Agendum 98/1945.

determining allocations of scarce foodstuffs had not been established. Nevertheless, it was accepted that the first priority was the supply of rations to the Australian Services, and the same priority was accorded the *minimum* needs of civilians. Fractionally lower in order were the ration requirements of the United States forces. There had been subtle changes, however, in the Americans' priority rating. In 1942 quantities of food to be made available were determined by "entitlement", on the basis, that is, of the number of American troops stationed in the South-West Pacific Area multiplied by the ration scale as determined by the United States Army with an allowance for reserves. By 1943 the scale of American requirements had made necessary the use of a second test, "availability". When entitlement exceeded availability the latter was the determining criterion, and in such cases the Americans were offered as alternatives items of food in greater supply. Availability as a criterion was introduced not only to conserve food items in very short supply to meet the needs of the Australian Services and civilians, but also to allow a reasonable contribution to be made to the needs of the United Kingdom. In 1942 it had not been necessary to make a clear choice between the United States forces and the United Kingdom because of the shortage of shipping, and the comparatively small size of the American garrison; but in 1943 with some improvement in the shipping position, the United Kingdom was becoming increasingly impatient about the apparent tenderness of the Australian Government towards its own civilians and United States forces.

There was also growing dissatisfaction in Australia about the inability to supply Britain and the seemingly endless growth of American demands. The Minister for Commerce and Agriculture highlighted the problem in his Cabinet submission of September 1943, as noted earlier, and drew particular attention to the length of the American shopping list for 1944, the impossibility of supplying all requirements, and the comparatively generous scale of American rations. Adding weight to the argument was dissatisfaction within the Army about the fact that American troops received larger rations than Australians, a matter of particular concern when troops of the two countries were fighting side by side. Moreover, by 1944 the United States was in a position either to make a greater contribution to the rations of its troops in the South-West Pacific Area and South Pacific Area by direct shipment, or to relieve Australia of some of its responsibility to supply the United Kingdom. The upshot was re-examination of the obligation to United States forces (including the scale of victualling) and of the level of civilian requirements, which led to the establishment of a formal system of priorities in place of existing *ad hoc* arrangements.

The scale of the standard American garrison ration had already been the subject of lengthy and delicate discussions. In approving a change in the method of food procurement by United States Army Services of Supply, the War Cabinet laid down in March 1943 that "the American standard of rations should conform reasonably to the standard laid down for the Australian forces".[2] The standard American ration represented an

[2] War Cabinet Minute 2718, 23 Mar 1943, on Agendum 110/1943.

intake of 4,758 calories per day at a cost of 27s. 3d. compared with the standard Australian ration of 3,944 calories per day at a cost of 21s. 2d. Whether such a difference was in fact reasonable was the subject of heated debate, but the Government hesitated to take the high-level diplomatic initiative required for any consideration of the matter in Washington. Conferences held at the end of 1943 and early 1944 found the United States Army representative[3] adamant that the garrison and other scales were reasonable, and that the difference was due to "national characteristics". Not wishing to force the issue, the War Cabinet in February 1944 formally accepted the American scale as the basis for procurement and issue subject, as before, to availability. But because the Americans already held 24,000,000 rations, reserves of non-perishable items held outside Australia were to be reduced from ninety to sixty days. Further, the Americans were to lodge statements regularly about the strength of their forces and the quantity of food held.[4]

While this decision changed very little, the small amount of additional control envisaged proved difficult to enforce. For reasons understandable in part, the Americans made available only a token amount of information about the extent of reserve stocks in forward areas. Nor were there reliable estimates forthcoming about the number of troops in the South-West Pacific Area and adjacent areas. The difficulties of head-counting under combat conditions should not be underrated, although Food Control suspected with justification that the problem was exaggerated for obvious reasons. In June 1944 the Minister for Commerce and Agriculture complained that officials were largely working in the dark in checking American demands, and that the United States authorities were now insisting on even higher ration scales because of the rising proportion of their troops stationed in tropical areas.[5] Although Scully spoke of the "very dangerous situation which may arise" and the impossibility of meeting all demands,[6] the War Cabinet avoided a direct confrontation on American victualling standards.[7] Rather, the Americans were rationed in global terms by means of the rule that rations were to be supplied to the point of "availability". As will be outlined shortly, "availability" was redefined so as to give essential food export commitments much the same priority rating as the demands of the Americans. The United States had already been induced

[3] Major-General R. J. Marshall, commanding United States Army Services of Supply, South-West Pacific Area.

[4] War Cabinet Minute 3346, 22 Feb 1944.

[5] The Americans used three ration scales as a guide to the feeding of their troops. The Garrison Ration was intended for those troops stationed in non-combat zones, although there could be some variation depending on the particular area. In addition, "X" and "Y" scales were developed to allow the Garrison Ration to be supplemented when troops were operating in tropical areas. The "X" scale applied north of Cooktown, and the "Y" scale was intermediate between the Garrison Ration and the "X" scale. From the Australian point of view the significance of the "X" scale was that it increased the daily meat ration by ten per cent, added fresh fish and ham, and generally increased substantially the protein content. The difficulty for Food Control was that the War Cabinet in February had authorised supply on the basis of the Garrison Ration and Food Control had no formal authority to resist pressure to supply an increasing proportion of troops (85 per cent was the American estimate of mid-1944) on the "X" scale.

[6] War Cabinet Agendum 336/1944, 14 Jun.

[7] The agendum was deferred by War Cabinet Minute 3706, 4 Aug 1944, and ultimately referred to the Production Executive in connection with overall manpower planning for 1944-45 by Minute 3727, 23 Aug 1944.

to increase their shipments of meat and dairy products to the United Kingdom to make good some of the short-fall in Australian exports.[8] The enforcement of a specific upper limit to "availability" required the United States forces in the South-West Pacific Area and South Pacific Area to rely increasingly on direct shipment across the Pacific.

Meanwhile, the Civilian Requirements Board on the direction of the Prime Minister had prepared data on food consumption standards in collaboration with the Department of Health and the Nutrition Committee of the National Health and Medical Research Council. The purpose of the report was to establish minimum civilian needs to form the basis for a more comprehensive priority system. The estimates included comparison with the United Kingdom and the United States. Some of the Australian figures were, however, rough and only broad conclusions could be drawn from them, particularly in the context of international comparison. The accompanying table is reproduced from a subsequent revision of the figures by a joint committee of Australian and United Kingdom officials published at the end of the war which provides a more accurate and comprehensive comparison of standards in the two countries. An important point to stress is that the figures are of average consumption per head and do not take account of differences between the two countries in the system of distribution. Under comprehensive and stringently administered food rationing in Britain, available supplies were more evenly spread than in Australia where rationing was more selective and for various reasons enforced less rigorously. Thus, there existed in Australia greater variation from the average than in the United Kingdom. (See Table next page.)

Using similar figures for 1943 only, the Civilian Requirements Board concluded generally that "in establishing a scale of essential needs . . . the scope for reduction [in 1944] compared with 1943 is very limited".[9] Taking the main food items, there was no scope for reduction in milk consumption. Indeed, Australian consumption of milk was lower than in the United Kingdom and the United States and, as noted earlier, the Board urged the adoption of a priority distribution system for invalids, nursing and expectant mothers, and children. Consumption of oil and fats (including butter) was also lower than in the other two countries, although in this case the Board considered the butter ration could be reduced to six ounces per week so long as substitute fats were made available to compensate. Meat consumption was, however, much higher than in either the United Kingdom or the United States but in view of the scarcity of fats the ration could only be reduced from 2.5 pounds per adult per week to 2.2 pounds. Egg consumption was only slightly higher than in the United Kingdom and lower than in the United States, and there was no scope for a reduction in supplies for civilians. In the case of vegetables, Australian figures were very unreliable but estimates made after the war indicate that consumption fell short of the United Kingdom

[8] Production Executive Agenda 36/1944 and Supplement 1, 37/1944 and Supplement 1, and 44/1944; Decisions 507, 508 and 511.

[9] Production Executive Agendum 54/1944.

ESTIMATED SUPPLIES OF NUTRIENTS AVAILABLE FOR CIVIL CONSUMPTION, AUSTRALIA AND UNITED KINGDOM

	Supplies — United Kingdom			Supplies — Australia			1944 as Percentage of Pre-war		Supplies in Australia 1944 as Percentage of U.K.
	Pre-war	1943	1944	Pre-war	1943	1944	United Kingdom	Australia	
Calories	3,008	2,866	3,012	3,128	3,084	3,062	100	98	102
Protein									
Animal (gm)	42.3	40.1	41.4	58.8	58.6	55.5	98	84	134
Vegetable (gm)	37.6	46.3	46.6	31.1	31.3	33.5	124	108	72
Total (gm)	79.9	86.4	88.0	89.9	89.9	89.0	110	99	101
Fat (gm)	130.4	115.2	123.5	132.5	134.1	125.5	95	95	102
Carbohydrate (gm)	378.8	370.6	387.8	395.9	379.0	392.4	102	99	101
Calcium (mgm)	705	1,043	1,051	650	722	738	149	114	70
Iron (mgm)	12.6	16.2	16.3	15.8	15.5	15.0	129	95	92
Vitamin A (I.U.)	4,159	3,783	3,952	4,946	5,011	4,693	95	95	119
Ascorbic acid (Vitamin O) (mgm)	102.8	108.4	118	85.6	77.2	88.7	115	104	75
Thiamin (Aneurin or Vitamin B1) (mgm)	1.22	1.92	2.03	1.45	1.47	1.48	166	102	73
Riboflavin (mgm)	1.62	2.05	2.10	1.76	1.95	1.77	130	101	84
Niacin (Nicotine acid) (mgm)	13.3	14.6	16.1	18.7	17.9	16.9	121	90	105

Note: No allowance has been made for substantial losses which may occur in storage, preparation and cooking.

Source: "Food Consumption Levels in Australia and the United Kingdom" — Report of a Joint Committee of Australian and United Kingdom Officials, *Parliamentary Paper* No. 41 — Group 1 — F.33, 28 Sep 1945, p. 10.

standard, especially in respect of potatoes; but the availability of fresh fruit was much greater than in the United Kingdom and only slightly lower than in the United States. The sugar ration of twelve ounces per week was regarded as sufficient (consumption was greater than in either the United Kingdom or the United States). The broad nutritional picture was that total food supplies were adequate, in both Australia and the United Kingdom; in the United States they were more than adequate. In the words of the joint committee of experts in 1945,

> In 1944 the average Australian diet is more varied and palatable than the average United Kingdom diet by reason of the greater available supplies of meat, sugar, shell eggs and fruit. This was also the case before the war, but the deterioration in the United Kingdom has been greater than in Australia.[1]

But as the table shows the nutrient difference was only marginally in favour of the Australian average, while the intake in Australia of minerals and vitamins, notably calcium, was lower than in the United Kingdom. The Civilian Requirements Board's conclusion that *minimum* civilian needs in 1944 should not (except for a few minor adjustments) fall below actual consumption in 1943 redirected attention to the old problem of choosing between the requirements of the United States forces and the export obligation to the United Kingdom.

The committee appointed to establish general principles of priority and allocation[2] was convinced that the food demands of the United States forces should not be allowed to escalate to a point which further diminished the already low level of exports to the United Kingdom. The highest priority was reserved for Australian Service rations and essential civilian needs as recommended by the Civilian Requirements Board (A.1), while the comparatively small needs of Australian Service canteens, the Comforts Fund (operational areas), the Red Cross and industrial canteens were alloted A.2 priority. The sting in the committee's report was the proposal to give "vital export obligations" (mainly exports to the United Kingdom but also relief supplies for Dutch New Guinea and famine relief for Bengal) a higher order of priority (A.3) than the approved rations of the Americans (priority A.4). This did not mean that there was any intention to negate the War Cabinet decison to meet the requirements of Americans as determined by their ration scale within the availability of supply. Rather, it was an attempt to restrict the definition of availability so as to reserve a certain minimum level of exports to the United Kingdom from American encroachment. The reasoning was simply that food supplies in the United Kingdom were close to the bare nutritional minimum, and that there was no alternative source of supply for people in Dutch New Guinea and the Pacific Islands. By contrast, United States forces "could, if necessary, rely on the resources of their own homeland". While

[1] "Food Consumption Levels in Australia and the United Kingdom", Report of a Joint Committee of Australian and United Kingdom Officials, *Parliamentary Paper* No. 41, 28 Sep 1945.

[2] The committee was appointed by War Cabinet Minute 3346, 22 Feb 1944, which, in sanctioning the Garrison Ration as the basis of provisioning United States forces, instructed the Production Executive to review principles of priority. The committee was under the chairmanship of T. W. Swan of the Department of War Organisation of Industry, and included representatives of Food Control and the Treasury.

acknowledging the obligation under the Mutual Aid Agreement, the committee urged the Government to exercise its right under the agreement to define the limit of its capacity to supply.[3]

While the logic of the committee's case was acknowledged, listing rations for the Americans below "vital export obligations" was regarded by the Production Executive as too provocative. Instead, the two were grouped together in priority A.3. However, the priorities hierarchy was not to be interpreted rigidly "but as a flexible system of principles to be interrupted in the light of the circumstances of individual foodstuffs".[4]

ALLOCATION OF DAIRY PRODUCTS, 1944-45
(millions of gallons whole-milk equivalent)

	1944	1945
Civilians (including ships' stores)	601	574
Australian Services (including ancillaries)	84	62
United States Services	65	60
Pacific Islands	1	2
United Kingdom and other "vital" exports	270	306
Total allocations	1,021	1,004

ALLOCATION OF MEAT, 1944-45
(thousands of tons carcase equivalent)

	1944	1945
Civilians (including ships' stores)	580	578
Australian Services	124	104
United States Services	158	100
Private Orders	—	3
United Kingdom (including associates)	178	180
Total allocations	1,040	965

Source: Production Executive Agenda 43/1944 Supplement 10, 112/1944, and 63/1945.

These guidelines were used for 1944 and 1945. The equal priority given "vital export obligations" and United States forces did not mean that any surplus after meeting Australian civilian and Service requirements was divided equally between them. The Production Executive used its discretion to squeeze the Americans rather harder than a strict interpretation of their priority rating would have indicated. This was necessary not only because of the general decline in food production but also to honour the Prime Minister's public declaration that exports to the United Kingdom in 1945 should not fall below the levels of 1944.[5] It also coincided with the widespread official view that the Americans were well able to look after themselves.

[3] Production Executive Agendum 38/1944. The committee also had an eye on post-war trade and diplomatic relations with Australia's near neighbours.

[4] Production Executive Decision 500 on Agendum 38/1944; Full Cabinet Agendum 699; meeting 8 Aug 1944.

[5] *Digest of Decisions and Announcements*, No. 89, pp. 25-8.

The extent to which discretion was used to redirect supplies from United States forces to the United Kingdom can be illustrated by reference to allocations of dairy products and meat. In the case of dairy products, the main burden of adjustment in 1945 to allow exports to the United Kingdom to be maintained fell on civilians by means of the reduction in the butter ration. Together with the reduction in the Australian Service requirement following partial demobilisation, this was sufficient to honour the Prime Minister's pledge to the United Kingdom. The total requirement of the United States forces in the South-West Pacific Area for 1945 was estimated at 129,000,000 gallons whole-milk equivalent, mainly in the form of cheese and processed milk. The American demand on Australia was for 70,500,000 gallons. As the Americans intended to meet a substantial proportion of their own needs, the Production Executive decided to reduce moderately the demand to 60,000,000 gallons thus meeting 47 per cent of the estimated need.

By contrast, the United States demand for meat in 1945 was treated roughly. The demand was more extravagant, the Americans believing that there was greater scope for reduction in Australian civilian consumption; the United Kingdom's need was relatively greater. For 1945 total United States Service requirements were placed at 350,000 tons carcase equivalent, while their demand on Australia was for 250,000 tons. Acceptance of anything like this amount was out of the question. In deciding to allocate only 100,000 tons, the Production Executive was aided in overcoming any qualms it may have had by the fact that much of the meat sent by the United States to the United Kingdom in 1944, in compensation for reduced Australian allocations to the United Kingdom, was of poor quality, most being fit only for processing. In other words, the decision was to reduce allocation to the United States as far as possible so as to prevent (with the aid of more stringent domestic rationing) further deterioration in the volume of meat exports to Britain.

Allocations to the United States forces of other foods in short supply were also cut sharply at the end of the war. The reasons were diverse. No rice was made available in 1945 because the very low level of production was reserved for hospitals, Australians of Asian extraction, the Merchant Navy, and for export of small amounts to New Zealand and the Pacific Islands. Egg allocation was reduced so as to make more available to the United Kingdom. The allocation of vegetables was cut less severely because supplies were reasonably good and the only British demand was from the Admiralty. In short, the practical effect of formalisation of the food priority procedure at the end of the war was to reduce the priority given to the United States in favour of those in greatest need and those most likely to provide post-war markets.

To conclude, food supplies for civilians and the Services were reasonably maintained during the Pacific war in the face of a severe reduction in manpower, depletion of capital assets, shortages of fertiliser, and transport difficulties. To be sure, there were deficiencies including inequit-

able distribution of non-rationed items. Vegetables were in very short supply in 1942 and there was a general shortage of vegetable protein; the decline in dairy production exposed a marked inadequacy in the intake of calcium; there was some reduction in the high Australian consumption of meat towards the end of the war; a number of less important items such as rice and fish virtually disappeared from the ordinary diet. But compared with most of the rest of the world, the average Australian continued to have a reasonably well balanced and varied diet.

The central issue of policy was, however, the extent to which Australia should have maintained her traditional role as a large food exporter. This is one aspect of the problem of resource allocation which was expressed in generalised form in the determination of manpower policy. After the turning point of the war early in 1943, the United Kingdom and the United States pressed the Government to reallocate resources so as to concentrate on the production of food and other basic materials of war. The argument was that Australia could make a greater contribution to the Allied cause by specialising in this way than by maintaining a large military contingent. But for domestic political reasons the invitation was not accepted. Any government would have found extreme difficulty in justifying substantial demobilisation after the psychological build-up of 1942 and while the Japanese were still far from defeated. The redirection of resources in favour of food production was therefore delayed, and only on a limited scale when it did materialise. The consequence was that Australia was unable to re-establish her position as a large supplier of food to the United Kingdom, a result aggravated by prolonged weakness in examining the demands of United States forces in the Pacific.

CHAPTER 19

PRICE STABILISATION AND WAGES

UNTIL 1942 price inflation had not been a serious problem in the administration of general wartime economic policy. The swift introduction of price control in 1939 and the existence of a pool of unemployed resources restricted increases in retail prices (as measured by the "C" series index) to an average of five per cent per year during the first two years of war.[1] However, as the war effort gathered momentum and usable unemployment was eliminated during 1942 the rate of price increase jumped to ten per cent per year. The limitation of gross profit margins to fixed money amounts through Prices Regulation Order 666 of April 1942 had not been effective in restricting inflation. Moreover, all the indications were that the inflationary trend would continue to accelerate unless there was a drastic change in policy. The Prices Commissioner had no means of control over export prices, the cost of imported materials, war risk insurance premiums and freight rates, all of which were rising rapidly. In addition, he had no effective means of controlling price increases brought about by competition for supplies within the public sector, and between the public and private sectors. Understandably many public purchasing authorities regarded the acquisition of essential war supplies as more important than adherence to price control guidelines, so that by the end of 1942 (with governments absorbing one-half of domestic output) the prices policy was in jeopardy.

TOWARDS PRICE STABILISATION

The growing inadequacy of established techniques of price control called for a re-examination not only of the method of control but also of policy objectives. Existing prices regulation orders were designed, primarily, to curb profiteering; price rises which were related to increases in costs were outside the jurisdiction of the Prices Branch. Nevertheless, restraint of general price inflation was an implicit objective of price control. During the first two years of war both profits and prices were controlled with reasonable success by using a single instrument; by the latter part of 1942 it was plain that the restraint of inflation and the control of profiteering were separate problems which required different treatment.

Partial recognition was given to this new situation by the Prices Commissioner, Professor D. B. Copland, in a memorandum to the Prime Minister on 22nd August 1942. Copland was mainly concerned, however, with the practical difficulties of administering a consistent price control policy. He was particularly anxious about the effect of the profusion of committees and other authorities with some influence on particular costs and prices which based their decisions on the income claims of individual

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[1] Butlin, *War Economy 1939-1942*, Ch. 2.

industries or groups and not on more general criteria. An example was the Central Wool Committee which was empowered to fix the price of wool for local consumption. In mid-1942 this committee had added a 15 per cent rise in the export price of wool to the domestic price together with a loading of 10 per cent to make up a deficiency caused by charging local customers in earlier years a price generally less than the export price to Britain. This had helped to increase the domestic price by about 75 per cent since the outbreak of war, a rise which had added substantially to the inflation of clothing prices. Independent action by the Shipping Control Board, the Dairy Industry Committee, the Export Sugar Committee in the Department of Trade and Customs, the Contract Board, and State government departments had also been contrary to the principles of price control.

Difficulties of this kind were, however, more or less inevitable during rapid conversion to a total war economy. But they were not fundamental. Behind the lack of administrative co-ordination lay the rapidly widening inflationary gap, escalation in the cost of strategic imported materials and cost rises associated with employing less productive labour and with moving labour from non-essential to essential industries. Copland indicated a possible way of strengthening price control when he suggested to the Prime Minister that:

> Hitherto price control has operated on the basis of permitting prices to be raised to absorb increases in costs, subject also to the margin of net profit being regarded as reasonable. If this method of control is to continue it is essential that all costs which can be brought under control in Australia should be effectively controlled. Some increases in costs, however, are beyond the control of the Commonwealth, most important being the landed costs of imported goods. As regards exportable goods, it should be possible in the event of an increase in export price, to keep the local price below the export price. . . .
>
> The effect of rising import prices on costs should be met by establishing Government Agencies for the purchase of necessary imports and stabilising prices, as in the case of tea. It would be necessary in this event for the Government to pay some subsidies should import prices rise above the stabilised level.

At this stage the Commissioner was not prepared to recommend more than moderate additions to subsidy payments, and it was clear that *general* cost and price stability would not be achieved by this means alone.

The first task of the Prime Minister's expert committee on movements in costs and prices[2] (appointed as a result of Copland's memorandum) was to make prices policy explicit. The committee accepted without question the desirability of price stability. Expectations of stable prices in the future were essential to assist the Government's borrowing programme, reduce rates of interest and prevent the diversion of funds from war purposes to the relative security of tangible assets. But what did "price stability" mean in practice? Given that some price inflation was inevitable, how much could be tolerated? During the first two years of war five per cent per year had been regarded generally as tolerable, but

[2] Its members were D. B. Copland (chairman), H. C. Coombs, L. F. Giblin and representatives from the departments of Commerce (C. L. Steele), Labour and National Service (P. W. E. Curtin), Supply (F. A. O'Connor) and War Organisation of Industry (S. J. Butlin).

should this "limit" now be reduced in view of the adoption of a cheap money policy? Or should the primary objective of prices policy be to keep movements in the Australian price level in line with those in the rest of the world?

Although answers to these questions were not provided explicitly, the committee clearly believed that price stabilisation literally interpreted was the only logically consistent and workable principle to adopt. In other words, it accepted that an overall ceiling should be placed on *all* prices if an anti-inflation policy was to be effective even though it recognised that some price rises would be inevitable. This view was reinforced by the fact that Britain, Canada and New Zealand had adopted during 1941 stringent price control policies which had been successful in retarding the rate of price increase. The committee was particularly impressed with the Canadian policy of an overall ceiling which had very nearly eliminated price inflation during 1942. Thus the adoption of a similar policy in Australia appeared to offer not only an effective means of price control but also a way to ensure that the "official" Australian price level moved broadly in line with those in a number of her more important trading partners.

There remained, however, an important choice between specific subsidies or a more flexible system of discretionary and fairly widespread stabilisation. As shown in the table, price rises had been concentrated in the clothing and food groups of the "C" series regimen and stabilisation of these groups by means of specific subsidy payments would remove most of the cost-induced pressure on the price level. Specific subsidies had some advantage: they would be less of a burden on the Treasury and thus reduce the amount of additional credit expansion necessary to finance the payments; the danger of creating a large number of potential vested interests in the continuation of subsidy payments would be avoided. Further, Britain and New Zealand had been reasonably successful in restraining price inflation by means of specific subsidies.

MOVEMENTS IN "C" SERIES RETAIL PRICES
(rate of change per cent per year)

	1939-40	1940-41	1941-42	1939-42
Food	1.9	0.2	12.8	14.7
Rent	0.6	0.3	0.0	0.9
Clothing	14.6	17.7	19.0	60.5
Miscellaneous	4.9	6.5	3.4	15.5
All Items	4.6	5.4	9.5	20.7

But there were a number of major disadvantages. First, there was no guarantee that cost rises in the future would follow the pattern established in 1939-42 and the means of altering the distribution of payments might not prove sufficiently flexible to isolate cost rises of strategic items previously outside the subsidy scheme. Second, costs in the unsubsidised section of production could still rise sufficiently rapidly to jeopardise the war

loan programme and the reduction of interest rates. Third, and a major element in the committee's reasoning, the advantage of a comprehensive scheme was that it would allow some non-essential industries to be eliminated and profits to be squeezed with a view to securing greater efficiency, but this would not be available unless an overall ceiling was imposed supported by a comprehensive subsidy scheme. As explained by the committee,

> The great advantage of the ceiling is that it exerts the maximum pressure on firms and industries to bear increases [in costs] where possible by means of more efficient production, by concentration of production, or by lower profits. Only in the last resort, when these possibilities have been fully exploited, would the Government have to give direct assistance in order to maintain the ceiling.[3]

Further, under a policy of ceiling prices

> Many businessmen would be reluctant to ask for Government subsidies, as this would mean exposing themselves to investigation. They would make every effort to effect economies in their businesses in order to avoid this. Moreover, when a subsidy was asked for, the onus would be on the businessman to prove his case. Government investigators would make a careful examination of the business concerned to see that it was being worked at maximum efficiency, and the Government would be in a strong position to force firms to achieve maximum economy in production.

And when a firm did seek assistance by way of subsidy to cover rises in costs,

> no subsidy would be paid until the Government was satisfied — (a) that the person at present carrying the increased costs was unable to bear all or a part of the burden (the "squeeze"); and (b) that all or part of the burden could not be "rolled back" (or forward) on to other producers or traders. It is an essential part of this policy that the payment of the subsidy should leave the recipient in a somewhat worse position than before the need for a subsidy arose. Under the present system of price control much has been done to reduce gross and net profits in industry. But under the proposed policy of price stabilisation, based in part upon subsidies, still greater pressure would be exercised on industry to reduce profits.

The committee added that subsidy payments on these terms would result in significant saving of national resources. Subsidies would be used primarily to isolate cost increases at their source so that the initial cost rise would not be allowed to escalate through the line of production and distribution. Thus, additions to the profits of intermediaries would be avoided and, although an increase in government expenditure would be involved, compensation in the form of lower prices would more than offset this increase.

The committee therefore recommended two interrelated courses of action. First, the declaration of an overall ceiling on all prices, and on the costs of all materials *at all stages of manufacture.* Second, that specific attention be given to key points in the cost-price structure so as to (a) stabilise (by subsidy if necessary) prices of basic raw materials, freight and power; (b) redirect production to ensure adequate supplies at reasonable prices of such essentials as clothing, meat and vegetables;

[3] "Report of Committee on Movements in Costs and Prices", 24 Dec 1942.

and (c) fix maximum prices for individual goods to exclude luxury production and to stimulate greater efficiency. In addition, it recommended that further government assistance be granted (such as by way of subsidy or reduction of indirect taxation) when cost increases could not be covered by the proposals to stabilise raw material prices and when it was essential for war needs that firms be maintained in production. This plan was to be supplemented by efforts to standardise production—particularly clothing items—to reduce costs further, rationalisation to be under the direction of the Department of War Organisation of Industry. The plan was not intended to replace existing prices regulations; these were to remain in force to control such aspects as gross and net profits.

Cabinet accepted in principle the committee's recommendations on 15th January 1943,[4] but a number of important details had still to be worked out. The first of these was the precise meaning of the term "ceiling prices" and the way the ceiling should be administered. The committee had emphasised that ceiling prices should mean maximum prices, but beyond this there were questions about the degree of elasticity (if any) of the ceiling, the degree of uniformity in prices, exceptions to the operation of the ceiling, and whether the ceiling should be introduced gradually on essential goods first or on all goods at the same time. A second committee appointed by the Prime Minister considered these questions during January and February.[5] The answers supplied were necessarily pragmatic. While not sacrificing the principle of price stabilisation, the committee's main concern was to make the plan workable.

Although ceiling prices were to be regarded as maximum prices, the second committee recognised that the ceiling should not be applied inflexibly. If, for example, the programme of rationalisation proved successful, some price reductions might be possible; or it might be desirable to reduce prices for other reasons. Similarly, approval of selected price increases would probably prove inevitable. The committee was not sufficiently optimistic to believe that a fixed price ceiling could be held for the remainder of the war. On the question of price uniformity it was accepted that (despite all the administrative advantages) regional price differences and those arising from differences in production and distribution should be retained. To attempt to interpret the price ceiling so as to mean price uniformity would involve enormous problems in defining similar goods and services, and would inevitably lead to some injustice and perhaps disruption of the industrial war effort. Again, gradual introduction of the ceiling would avoid the administrative problems associated with a more or less arbitrary choice of a price-ceiling date, but the imposition of the ceiling on essential goods first might encourage diversion of resources to non-essential production. Thus the committee explained that

> Ceiling prices will be those ruling on a date to be determined. These ceiling prices will therefore be the prices operating in different places and among different

[4] Full Cabinet Agenda 441 and 441A, 15 Jan 1943.

[5] Members of the committee were: D. B. Copland, H. C. Coombs, G. T. Chippindall and S. G. McFarlane.

trades in the same place on that date. The prevailing price differentials on account of differing costs of transport and production and on account of differing methods of distribution will be preserved. The prices so fixed, however, will be maximum prices, and the normal methods of price control over costs and distributing margins will continue to ensure that goods and services are sold, where profits permit, at less than ceiling prices.

Excepted from the operation of the overall ceiling were war goods and primary products whose prices were subject to seasonal variation. Prices of war goods were usually determined by government authorities and the imposition of a ceiling on these prices would have produced inter-departmental conflict. In any case, the Government bore the full cost of war goods so that extension of the scheme to these products would have been superfluous. Seasonal primary production (mainly such perishables as vegetables, milk and meat) were excepted from the overall ceiling but not from the general principles of the plan. So as to allow for normal seasonal price variations, prices were to be fixed specifically to conform with the established seasonal pattern. However, seasonal prices were to be determined in such a way as to bring the average price for the year within the meaning of price stabilisation. Clearly, there were many administrative problems in achieving this result and price control of seasonal products proved to be one of the most difficult parts of the scheme to administer with justice to both producer and consumer, particularly in the period of food shortage in 1944-45.

While the principles of the price stabilisation plan were formulated with admirable clarity and attention to detail, much less consideration was given to administrative arrangements. The committee on movements in costs and prices recommended, simply, that "an authoritative body"—a Price Stabilisation Committee—should be established to co-ordinate various parts of the scheme which were outside the responsibility of the Prices Branch, and to examine and report on recommendations of the Prices Commissioner for subsidy payments. No attempt was made by either of the committees of enquiry to hammer out how co-ordination could be achieved in practice. By 1943 the problems of administrative co-ordination were familiar and should have been anticipated. Acceptance of the price stabilisation policy involved an extension of Prices Branch work into areas which were the jealously guarded preserves of other departments and authorities. The most important of these areas were subsidy payments (Treasury), and rationalisation and standardisation (War Organisation of Industry and Supply and Shipping). The composition of the Price Stabilisation Committee was designed to meet the problem of overlapping authority. The committee, approved by the Prime Minister on 22nd February 1943, consisted of the Prices Commissioner, the Director-General of War Organisation of Industry, and the Secretary to the Treasury (or their deputies).[6] But judicious selection was insufficient

[6] Meetings of the Price Stabilisation Committee were usually attended by D. B. Copland (Prices Commissioner), P. W. Nette (Treasury), L. Brumby (War Organisation of Industry) and R. I. Downing (as secretary).

by itself to yield a working compromise. Cabinet direction was required, but no such direction was forthcoming.

Difficulties arose between the Prices Branch and the Treasury even before the announcement of the plan, and its introduction, on 12th April.[7] All of these were connected, directly or indirectly, with the scale, nature and procedure for approval of subsidy payments.

The first and most fundamental of the issues between the two authorities was the use of subsidies to compensate for increases in wage costs. The authors of the plan made no provision for subsidy payments in the event of increases in wages. National Security (Economic Organisation) Regulations of 10th February 1942 had pegged real wages; *general* adjustment of money wages was permitted only in line with movements in retail prices. Thus the plan assumed that no further wage increases would be necessary with the introduction of price stabilisation; indeed an important part of its rationale was elimination of the wage-price spiral. But a further provision of the economic organisation regulations allowed *partial* wage adjustment to remove anomalies in the wage structure, and no provision was made in the plan for the possibility of major wage rises on these grounds. Further and more important, no provision was made to deal with the effects of decisions of the Women's Employment Board which, as recounted earlier, had been established in 1942 to fix rates of pay and other conditions for women who had replaced men on jobs which before the war were classified as "men's work". The effect of the Board's decisions had been to increase female rates of pay from about 54 per cent to about 90 per cent of the male equivalent after a trial period. Although only a small proportion of female workers were likely to be affected by the Board's decisions, this posed some threat to the price stabilisation plan. More serious had been the Government's attempt, under constant pressure from Ward, Minister for Labour and National Service, to extend the Board's jurisdiction to include all work normally performed by men.[8] The Senate disallowed the regulations on 16th March 1943, but Ward succeeded in persuading Cabinet to reinstate them on 5th April 1943[9]—a few days before the introduction of price stabilisation.

The Treasury seized the opportunity to have parts of the scheme amended. It had not been represented on the committee on movements in costs and prices and believed that subsidy payments should be restricted to selected essential goods; it saw no need for a general price ceiling. Fortunately, there was insufficient time to submit the scheme to yet another committee and it was announced, as scheduled, on 12th April. The general principles of ceiling prices were declared in Prices Regulation Order 1015. But the Treasury was successful, at least temporarily, in establishing that subsidies would not be paid to compensate for increases in wages. As the Prices Commissioner recognised, this would have effec-

[7] Cabinet approval for the introduction of the price stabilisation plan was delayed until 10 Apr 1943 for reasons discussed below. Full Cabinet Agendum 455.

[8] Statutory Rules 1942, No. 548, 22 Dec. The regulations also increased the minimum female rate to sixty per cent of the male equivalent.

[9] Full Cabinet Agendum 475. Decision promulgated in Statutory Rules 1943, No. 92, 8 Apr.

tively sabotaged the prices ceiling if there had been a general rise in female wages. This was prevented for the time being by a decision of the High Court in August 1943 which declared void the reinstated Women's Employment Regulations and prevented general application of the principle of equal pay for equal work.[1]

Two further difficulties concerned the procedure for the approval of subsidy payments. First, friction arose because the Price Stabilisation Committee was responsible generally to the Minister for Trade and Customs but, in connection with subsidy payments, to the Treasurer also. The usual procedure was that the Prices Commissioner would prepare a recommendation for submission to the Price Stabilisation Committee, having first consulted the Department of War Organisation of Industry to ensure that a subsidy payment was warranted. The recommendation, if approved by the committee, was then submitted to the Minister for Trade and Customs and subsequently to the Treasurer. But the Treasurer also received independent advice on individual cases from the Treasury liaison officer at the Prices Branch which occasionally conflicted with the committee's majority recommendation and sometimes led to its rejection. Copland, as Prices Commissioner, reacted strongly against the Treasurer receiving minority reports which were not made available to both Ministers. As he complained to Senator Keane,

> This procedure is not conducive to the smooth working of the plan, or compatible with the status of the office I hold. I do not think that a representative of the Treasury should be in a position to make independent recommendations to the Treasurer on problems for which I must accept full responsibility in my recommendations to you as the Minister in charge of the price stabilisation plan.[2]

However, the Treasury representative was not removed and Copland continued to resent the Treasurer's right to exercise a veto.

Second, the Price Stabilisation Committee decided at the outset, against Copland's wishes, to examine each individual case and recommend accordingly. Copland envisaged that the Committee would confine its attention to broad principles and delegate authority when no matter of principle was involved. Delegation of authority would certainly have expedited decisions, but the Treasury objected, with reason, to any delegation of the fiscal responsibility that it regarded as its own. Treasury also distrusted the Prices Commissioner's attitude to price stabilisation. It believed that the determination to hold the prices ceiling was obsessive, and that there was far too great a tendency to recommend subsidies on the *prima facie* evidence of statements of account supplied by firms[3] and without investigating adequately the alternative available. To be sure,

[1] Victorian Chamber of Manufactures *v* Commonwealth (Women's Employment Regulations), *Commonwealth Law Reports*, Vol. 67 (1943), p. 347.

[2] Prices Commissioner to Minister for Trade and Customs, 17 Apr 1944.

[3] According to the Treasury, an instance of the Prices Commissioner's cavalier approach was in the case of petrol, kerosene and alcohol referred to the Price Stabilisation Committee in June 1943. Originally, the oil companies applied for a 1d. per gallon increase in the price of petrol in January 1943 to compensate for a "drastic decline" in their profits due to rising oil prices. A decision was deferred pending an examination of the trading results of the companies, but the position was not clarified until after the imposition of the ceiling. Copland was satisfied that compensation was warranted, and recommended a 3d. per gallon increase to apply solely to Commonwealth government departments. This would have been tantamount to a subsidy payment, and Treasury objected (a) that the Commissioner had not determined suffi-

there was some truth in this. By 1943 price stabilisation was for Copland the central element in wartime economic policy and his impatience with those authorities that did not accord prices policy such a high order of priority was all too evident. But Copland's irritation was partly justified. Even as late as 1943 Treasury was reluctant to accept innovation, particularly if the innovation was imposed on it from outside. Its co-operation with price stabilisation in the early stages was minimal, although it eventually learnt to live with large-scale subsidies.

An essential condition for the success of price stabilisation was that it should be *seen* to be successful. Expectations that rapid price inflation would continue were as damaging as actual increases in costs and prices. It was therefore with some apprehension that the Prices Branch awaited publication of the "C" series index for the June quarter of 1943; this apprehension turned to alarm when it was learnt at the end of June that the Commonwealth Statistician's figures would show an average rise in the index of 20 points or 1.7 per cent. Not only did this rise, which was close to the average rate of increase experienced in 1942, pose a threat to the credibility of price stabilisation, but it would also lead to a 2s. per week increase in the basic wage and thus further pressure on costs and prices. This increase in the index was largely outside the control of the Prices Branch, for most of the rise was due to increases in the landed cost of clothing materials before the introduction of price stabilisation and to the changeover from summer to winter clothing. Also, there had been seasonal rises in vegetable and meat prices. But special circumstances did not alter the fact that the Government had failed to hold the prices ceiling.

Three alternative courses of action were canvassed. First, it was suggested that the ceiling should be allowed to rise to the June level and that every effort should be made to hold this level by more widespread use of subsidies. This was the simplest of the alternatives, but it was rejected on the grounds that it would have undermined confidence in the concept of price stabilisation. Second, the Treasury argued forcibly that the whole concept of the ceiling should be abandoned and that attention should be confined to stabilising costs and prices of essential raw materials and consumer goods. This could be accomplished, it was suggested, by concentrating subsidy payments on such items as essential imported materials and those commodities such as tea, potatoes, milk and bread which figured prominently in the "C" series regimen. The effect of action along these lines would be to stabilise the "cost of living" which would have the same psychological effect as the ceiling but would avoid the practical difficulties associated with the administration of a blanket prices ceiling on most transactions. Treasury pointed out that the basic problem

ciently accurately the companies' true profit position, and (b) that there was no reason why State government departments and local authorities should not also be charged the higher prices. Copland countered in connection with (b) that "State government departments" could not be simply or consistently defined so that it would be administratively impracticable to extend the price increase in this way. Understandably, Treasury could not sanction the principle of State governments receiving subsidies from the Commonwealth through the back door, so the increase in the price of motor spirit (which the Treasury reluctantly accepted) was extended to all "easily definable" State departments.

was chronic under-supply and claimed that "price control cannot possibly do more than control profits. . . . It cannot prevent prices from rising and even if fully supplemented by subsidies, standardisation, etc., would not be entirely effective".[4] In other words, the price mechanism should not be abandoned entirely as a means of rationing, particularly for goods that were not essential for the war effort. Third, it was suggested by the Prices Branch that the ceiling of 12th April be maintained and that the price stabilisation plan be strengthened by extending subsidy payments to cover increases in wages. To reduce the price level to the theoretical ceiling, specific action should be taken to reduce prices of selected items in the "C" series index by a combination of tax remissions and subsidies along the lines proposed in the second alternative.

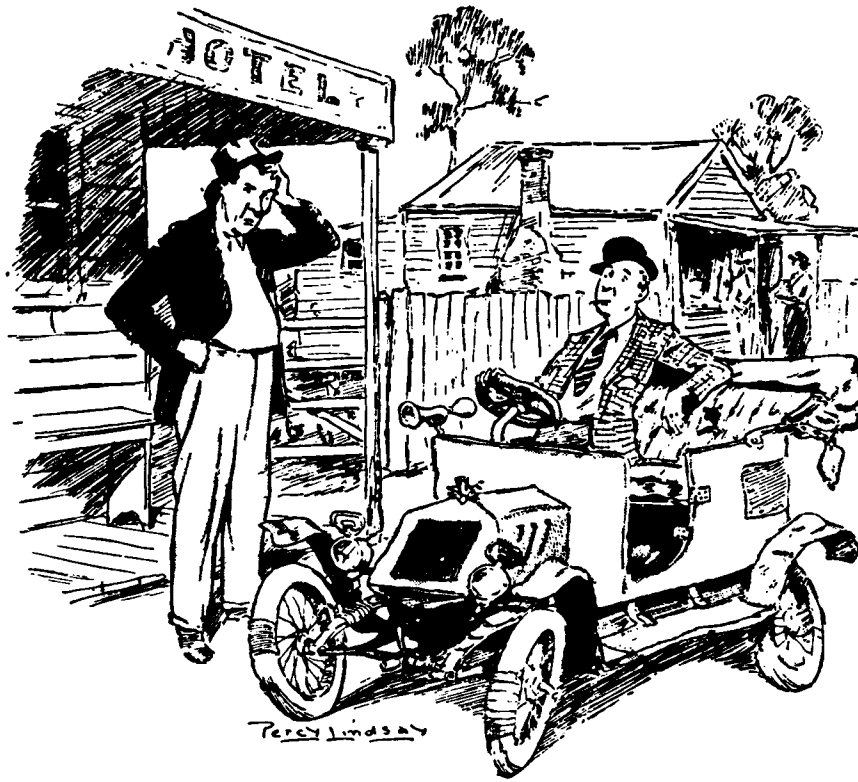
Cabinet had little difficulty in choosing between these alternatives. Treasury's criticism of the concept of the ceiling was partly valid, but it neglected the fact that the price stabilisation plan involved more than a strengthening of price control. Without the overall ceiling the scope for "squeeze", "roll-back" and rationalisation was much more restricted. The Government was particularly attracted to the opportunity provided by the plan to limit profitability since formal profit control had been found administratively unworkable in 1942. The Government was also unable to accept the political consequences of abandonment of ceiling prices or the administrative complications of a second major change in prices policy within a few months. Thus the Full Cabinet decided to retain the ceiling of 12th April and restore prices to this level.[5] It agreed that basic wage increases should be covered by subsidy payments, and on 20th July announced three specific reductions: (a) the price of tea from 3s. 5d. per pound to the pre-war price of 2s. 3d. per pound;[6] (b) the price of potatoes to 5 pounds for 6d. (previously 5 pounds for about 10d.); and (c) sales tax on rationed clothing from 12½ to 7½ per cent. It was anticipated that the price reduction of tea and potatoes would lower the "C" series index by 12 or 13 points almost immediately. The reduced sales tax on clothing could reduce the index by up to 15 points, but it would take until the end of 1943 for this to be fully effective.

These measures were successful in re-establishing the declared prices ceiling. By December 1943 the index was back to the level of the previous March; and, as shown in the diagram, prices were firmly held until the end of the war. During the six years of war Australian retail prices rose by 23.2 per cent; however 22.6 percentage points of this increase occurred between September 1939 and March 1943. The formal success of the plan was thus almost complete. Parliamentary and press criticism was minimal, indicative of the plan's widespread public acceptance. The early difficulties between the Prices Branch and the Treasury encouraged in-depth examination of the main policy details and most of these were settled without delay. But the success of price stabilisation should not

[4] Treasury memorandum "Stabilising Price Level and 'Cost of Living' ", probably 9 or 10 Jul 1943.

[5] Full Cabinet Agendum 522, 12 Jul 1943.

[6] Subsidies were paid on stocks of tea so that the price reduction was effective immediately.



"Better not ask too much for 'er or we'll 'ave the Prices Commissioner on our tails!"

Percy Lindsay in Bulletin *(Sydney), 20 Dec 1944.*

disguise the fact that the effective abandonment of the price mechanism in conditions of growing civilian under-supply created new and larger problems for such authorities as the Rationing Commission, the Treasury and the Commonwealth Bank. Further, it is likely that one important effect of the stable but increasingly artificial prices of the period 1943-46 was to accentuate price inflation in the years 1947-50; and that this led to greater post-war economic instability than otherwise might have been the case.

PRICE STABILISATION IN APPLICATION

The announcement of a new prices policy without warning inevitably created a difficult period of transition, but Prices Regulation Order 1015 provided for most of the contingencies that arose. Except for essential commodities, price adjustments were generally allowed so as to remove anomalies during this period. The most common adjustment of this kind was necessary when an increase in the price of a basic material had been approved before 12th April but had not been passed through the line of production. A similar problem occurred when traders held stocks purchased at higher prices than those on which their ceiling-date prices had been established. Again, increases were usually permitted in instances where applications under existing regulations were in hand and would have been approved under those regulations. Some latitude was also necessary to remove marked price discrepancies between substantially similar goods in the same localities. Maximum legal prices were those charged on 12th April[7] even though price differences might have been significant. As it was clearly undesirable to allow these differences to persist, the Prices Branch attempted to narrow the gap as far as possible. Some differences were justified on the basis of differing methods of production and distribution and no attempt was made to remove the gap entirely. Rather, price variations were limited by reference to a "band" of most common upper and lower prices.

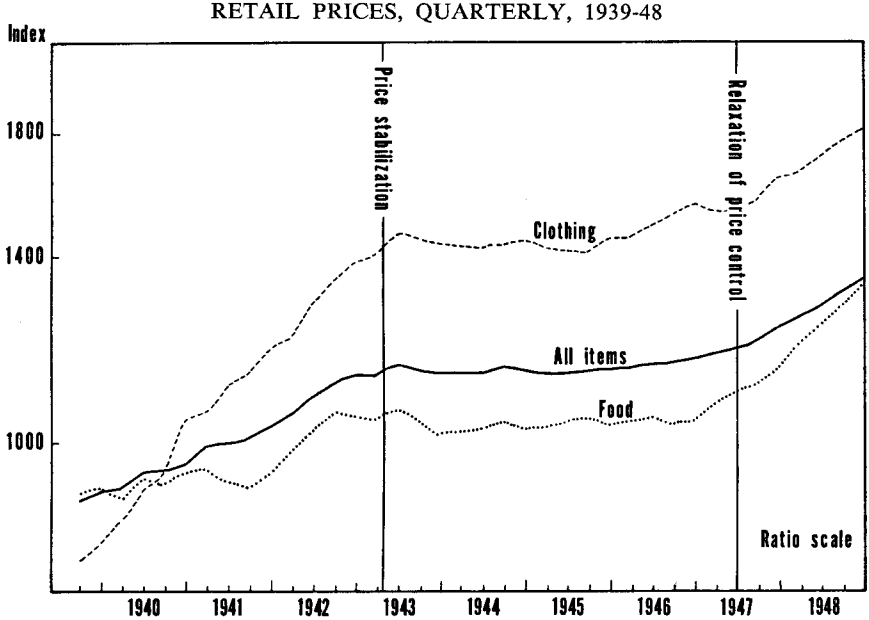
It was an essential element in price stabilisation that less than ceiling prices be charged whenever possible. When a firm's profit position did not justify ceiling prices being charged, maximum prices were determined in accordance with Prices Regulation Orders 666 and 667. Subject always to a check on costs, new goods (those entering the market for the first time after 12th April) were also priced in accordance with these orders. Prices Regulation Order 1015 empowered the Prices Commissioner to fix maximum prices or rates by notice in writing, and this method was used extensively to clarify specific maximum prices and to reinforce Orders 666 and 1015.[8] In applying his power to alter prices the Commissioner attempted to avoid increases in retail prices by first ensuring that rises in

[7] If there had been no sale on 12 April the ceiling was taken as the price obtained on the last date before 12 April.

[8] In 1945 the High Court ruled (Willmore *v* The Commonwealth, *Commonwealth Law Reports*, Vol. 70 (1945), p. 587) that a notice in writing was invalid because the person to whom it was given had not been named in the order and his name published in the *Commonwealth Gazette*. A new regulation gazetted on 16 Jan 1946 enabled the Commissioner to issue valid notices in writing without specifying in the *Gazette* the name of the person to whom the notice was issued. Notices already given were also validated.

costs could not be absorbed by price alteration along the production and distribution line. Only after profits of intermediates had been squeezed as far as possible were rises in retail prices approved.

RETAIL PRICES, QUARTERLY, 1939-48



Note: Index 1000 = 1923-27 Source: *Labour Reports*

The administration of the subsidy scheme presented a different range of problems. At the outset a distinction was made between imported and domestic goods eligible for subsidy. Applications for subsidy to stabilise the prices of imports were handled by the Prices Branch in association with the Division of Import Procurement and the Department of War Organisation of Industry; subsidies on domestic goods were handled by the Price Stabilisation Committee as outlined above.

Arrangements for the payment of import subsidies proved to be the least complex part of the scheme and these remained unchanged from the beginning of price stabilisation. Administration was simplified by the fact that all imports were subject to government licence and because actual landed cost was comparatively easy to document authoritatively. Machinery to test the essential character of imports was already established by the Division of Import Procurement. The main task of the Prices Branch was to determine the landed cost known as the "basic landed cost" at which goods could be distributed without a breach of the retail ceiling. Once this had been settled, cash subsidies were automatically paid to cover the excess of actual landed cost over basic cost. However no importer was expected to incur a loss on a consignment unless he was advised specifically that the import would not qualify for subsidy, an arrangement necessary to maintain the flow of imported supplies. Further simplification

was made possible by the high proportion of imports controlled by government authorities. In the case of tea, for example, details were worked out directly with the Tea Control Board obviating the need to deal with a large number of individual importers. The only real difficulty was caused, as usual, by cotton goods. British cottons were usually clearly marked and highly standardised, but Indian piece-goods were obtained from a wide range of suppliers varying from large manufacturers to local bazaars in a bewildering and apparently unrecognisable variety and at a correspondingly wide range of prices. Before basic landed cost for these goods could be determined, it was necessary to classify them into broad categories which could be readily identified. Eventually some degree of codification was achieved which also helped to simplify the administration of retail price control of cotton goods.

Lend-Lease imports were in a different category although the principles were the same. A high proportion of these were classified as capital goods[9] or were supplied to government departments and were thus outside the price stabilisation plan. Lend-Lease consumer goods available for release to the public were supplied at prices that prevailed immediately before 12th April. New basic prices were determined when necessary to maintain the ceiling or to absorb "excess" profits, but no subsidy payments were necessary because of the non-financial character of Lend-Lease. Instead the Division of Import Procurement kept an Equalisation Account which recorded the difference on balance between the recorded "cost" of imports and the price at which they were released. The small amount of refugee and requisitioned cargo was released in the same manner.

The handling of subsidy claims for domestic production proved to be much more complex. In principle the rules were clear enough. Subject to tests of efficiency and essentiality, payments were made at the source of the cost increase. Distributors did not receive subsidies under any circumstances; government departments and capital goods were also excluded from the scheme. Profit control was retained as an integral part of price stabilisation and appropriate deductions from subsidies were made when profits were "excessive".[1] These rules necessarily assumed by implication that the behaviour of firms was based on a number of standard characteristics. For example, they assumed that firms were operating at a level of profitability sufficiently large (although within the maximum allowed by Prices Regulation Order 666) to enable efficiency and production to be maintained and improved. As well, it was assumed that firms

[9] Throughout the period of price stabilisation, capital goods (those with a life of about ten years or more) were ineligible for subsidy because the longevity of the asset meant that consumers would not receive the full value of the subsidy. With the relaxation of wartime controls in 1945 some difficulty was experienced in classifying durable consumer goods. Generally those with a life of about ten years or more (sewing machines, washing machines, refrigerators, radios, etc.) were regarded as capital goods and no subsidies were paid.

[1] By Price Stabilisation Committee ruling of 27 Jul 1944, the following general rule was adopted for withholding part of subsidies on imported goods:

Percentage net profit on funds employed	Proportion of subsidy withdrawn
15 and less than 17½	25 per cent
17½ and less than 20	50 per cent
20 and less than 25	75 per cent
25 and over	100 per cent

"Excess" profits on domestic goods were handled by lowering the prices ceiling or subsidy payment along the above lines.

within an industry were operating within a broadly similar framework of costs[2] and that costs were not subject to erratic or discontinuous movements. The machinery of price stabilisation subsidies worked satisfactorily and reasonably automatically when firms conformed to "normal" behaviour, so that much of the time of the Price Stabilisation Committee was devoted to improvising arrangements for the several important variations from the norm.

The attempt to stabilise coal prices illustrated the difficulties associated with the application of price stabilisation rules to abnormal situations. The coal-mining industry conformed to none of the assumptions underlying price stabilisation. The costs of most collieries moved erratically and unpredictably as old seams were exhausted and new ones were opened up. There were no excess profits to be squeezed. According to the chairman of the Coal Commission, N. R. Mighell, most collieries in New South Wales were working at a loss and only two were earning seven per cent on funds employed. Efficiency was retarded not only by the shortage of capital but also by miners' customs, union opposition to mechanisation and the refusal of the United States to supply machinery for continuous working. All sections of the industry knew that their output was essential and were exploiting the fact. Any interference in the industry was likely to precipitate a strike, engineered either by the unions or mine managers. Wages were not, in fact, pegged. Comprehensive logs of claims submitted before the introduction of wage-pegging regulations were still leading to some wage increases and reductions in the working week. Further, a large proportion of output was sold to government railways which were not eligible to receive the benefit of subsidies. Some long-term contracts with railways and other users at prices set in the nineteen thirties were still operating; the imposition of the ceiling on the basis of these contract prices would create serious hardship. The Coal Commission's chairman believed, in short, that the price mechanism provided the last vestige of discipline in an otherwise undisciplined industry; that the payment of subsidies would remove the final trace of opposition by coal owners to wage increases, and that they would lead to a further decline in efficiency and encourage extravagant development schemes at government expense.

On the other hand, coal was a basic material for a wide range of industries involved in war production and the Price Stabilisation Committee could not afford to sanction a modification of the prices ceiling in this instance. Coal was one of the first price stabilisation cases and the precedent established could have had a bearing on future decisions. For these reasons it was decided to reject the suggestion of the Coal Commission and the Treasury that users rather than producers be subsidised. However, it was found impossible to adhere rigidly to the prices ceiling and a combination of price increases and subsidy payments was approved.

[2] The rules provided for some differences in costs but not when these were so large as to create serious discrepancies in ceiling retail prices of similar goods. "Rationalisation" was intended to remove high-cost producers, but the scope of this was severely limited by shortages of capital equipment and the fact that the output of such obvious candidates for rationalisation as the clothing industry could not be sacrificed even for a short period.

Price increases were permitted to provide for the removal of anomalies in existing contracts, the conversion of temporary into permanent increases and minor unavoidable rises in costs. Subsidies were approved to meet retrospective increases in wages and other major rises in costs, the investigation of individual cases to be left to the discretion of the Coal Commission and a Prices Branch liaison officer. This was by no means a satisfactory solution but was probably the best that could be devised within the terms of reference of price stabilisation. The machinery of administration proved to be complex and clumsy, and price increases were greater than the maximum of 3d. per ton sanctioned by the Price Stabilisation Committee. In 1943-44 the average price of New South Wales coal rose by 6d. to 16s. 7d. per ton, and in 1944-45 by another 5d. per ton (a two-year increase of six per cent). However, the cost of subsidies proved to be less than expected. Coal companies were at first reluctant to submit their accounts for examination, and payments during 1943-44 were a mere £101,000 or 0.14 per cent of total subsidy expenditure. Coal subsidies did not become significant until the steep rise in wages of 1946-48.

Similar difficulty was experienced in the determination of whole milk prices and the amounts of subsidies to be paid. Again, problems arose because many producers were on very low incomes and there were marked differences in costs between producers in adjacent areas. The matter was complicated by the custom of varying the price according to seasonal supply conditions, by the unsatisfactory nature of average cost calculations and by the drought of 1944-45. The Prices Branch was rarely satisfied with the claims advanced on behalf of whole milk dairymen; and for their part dairymen maintained that the Prices Branch failed to understand the effect of the drought on seasonal supply conditions. However, subsidies were more generously distributed than in the case of coal and except for minor adjustment in Melbourne and Brisbane retail fresh milk prices were effectively stabilised from 1943 until the end of the war.[3]

These and other related difficulties were broadly anticipated at the outset of price stabilisation and were not sufficiently serious to force a change in policy. However, a policy change was necessary during 1944 to deal with the growing tendency of government departments and semi-government instrumentalities to increase their charges on essential goods and services.

The original reason for the exclusion of governments from the subsidy scheme was that the States and their instrumentalities should share in the cost of price stabilisation. The prices of goods and services to these bodies were therefore allowed to rise, subject to profit control via Prices

[3] A sidelight on the milk subsidy issue was a claim for a subsidy by small manufacturers of ice-cream to enable them to pay higher prices for milk and cream. The difficulty arose because of a Cabinet decision not to cut production of ice-cream below the 1942 level. The Price Stabilisation Committee regarded ice-cream as non-essential, but a refusal to meet the claims of the small manufacturers would also create an anomaly (and perhaps the elimination of some of these producers) because the largest manufacturer (Peter's) received indirect subsidy through its use of concentrated milk which qualified for assistance under the *Dairy Industrty Assistance Act.* (Only Peter's American Delicacy Co. Ltd. possessed the technical capacity to manufacture ice-cream from concentrated milk.) The problem was transferred to the Department of War Organisation of Industry for the preparation of a further Cabinet submission on ice-cream, but no satisfactory solution was found.

Regulation Order 666. It was assumed that governments would adhere to the spirit of price stabilisation by pegging their own charges. However, those instrumentalities which were more or less financially independent found difficulty during 1944 in maintaining prices fixed in April 1943 in the face of rising costs, and the Price Stabilisation Committee received many applications for subsidy as a result of rising prices for electricity, haulage, abattoir services and the like. The Government accepted that subsidy payments should be made to instrumentalities and local government bodies which were not closely related to State government budgets. In practice it was often found difficult to distinguish between authorities on the basis of dependence on the budget, but the Treasury insisted that the payment of subsidies to State government departments would cut across and distort the work of the Commonwealth Grants Commission. At the meeting of Premiers in October 1944 the following rules were accepted:

(a) Government departments closely related to the budget where variations of rates have not in the past been used fully to prevent deficits—not to be considered for subsidy.
(b) State-owned commercial, trading or other undertakings managed somewhat independently of the State government on business lines and expected to meet any losses by adjustment of rates—to be considered for subsidy whether the enterprise is related to the budget or not.
(c) Municipal councils and semi-public bodies operating under State legislation and possibly to be guaranteed by the State—to be considered for subsidy.[4]

State railway departments were specifically excluded from consideration for subsidy despite having some of the characteristics described in (b) because of the strong connection between railways and budget results. Certain services provided by local government such as sewerage, sanitary services, garbage collection and trade waste removal were also excluded. Because charges for these services were a minor factor in the cost of living, price increases were permitted to meet any rise in costs.

Government authorities were not, of course, automatically entitled to receive subsidies. The ordinary rules for subsidy payments applied: only those undertakings whose financial position warranted it received sympathetic consideration; any undertaking in a strong financial position was expected to absorb the increase in cost. This ruled out quite a number of the larger concerns and expenditure on subsidies for government authorities proved to be a small percentage of the total. Also goods and services provided by governments and instrumentalities were brought within the overall prices ceiling by Prices Regulation Order 1776 of 23rd October 1944.

COST OF SUBSIDIES

Ignoring the possible effect of price stabilisation in improving efficiency and eliminating non-essential production, and disregarding the cost of administration, subsidy expenditure made no demands on real resources.

[4] *Proceedings of the Conference of Commonwealth and State Ministers.* Canberra, 3-5 Oct 1944, pp. 28-29.

The main effect of subsidy payments in conjunction with maintaining price stability was to transfer income from those with adjustable incomes to primary producers and those with fixed incomes. (Wage earners would also have benefited marginally because of the elimination of the adjustment lag between changes in prices and changes in money wages.) Thus, in addition to encouraging the holding of wealth in the form of money balances rather than tangible assets, the main advantage of the scheme was as a contribution to general social welfare by distributing income in a way judged at the time to be more equitable than could have been achieved by allowing prices to rise.[5] It is not possible to determine from the available statistical evidence how far this ideal was achieved, and the matter was complicated further by the drought-induced fall in primary production and income at the end of the war. However, it appears that recipients of rent and interest received some advantage. The proportion of rent and interest in national income fell heavily from 11.4 per cent in 1938-39 to 7.6 per cent in 1942-43 but stabilised at 7.4 per cent during the remaining two years of war. In the absence of price stabilisation the share of rent and interest in national income would probably have continued to fall at the former annual rate of almost one percentage point. Stable prices probably helped to lift farm income during the middle war years from 8.2 per cent of national income in 1941-42 to 9.7 per cent in 1942-44. Conversely, price stabilisation in conjunction with control of net profits lowered slightly the share of company income in national income from a wartime peak of 11.4 per cent in 1940-41 to around 10.4 per cent in 1943-45. The share of wages (including pay and allowances of members of the forces) improved sharply from 54.5 per cent in 1938-39 to around 62 per cent at the end of the war, but most of this was due to the virtual elimination of unemployment.[6] Generally, therefore, the redistributive effects of price stabilisation were mild, although some of the groups most severely affected by the war received some benefit either through stable prices or subsidy payments.

On the assumption that all costs and prices had been adjusted instantaneously on the ceiling date to enable all profits to be brought to the maximum allowed by Prices Regulation Order 666, that all firms operated on constant returns to scale, and that all other anomalies were eliminated, no subsidies on *domestic* production should have been necessary. The extent to which subsidies on domestic production were necessary is, therefore, a rough index of the efficiency of price stabilisation policy and other controls such as the wage-pegging regulations in either restricting increases in costs or ensuring that increases were absorbed without the need for subsidies.

Most of the subsidies paid on domestic production during the two war years of price stabilisation were not related to primary increases in costs. The subsidy on potatoes sprang from the decision of July 1943

[5] For more elaboration on this see R. I. Downing, "The Costs and Achievements of Price Stabilisation", *Economic Record*, Vol. 20 (Jun 1944).

[6] Figures from *National Income and Expenditure 1947-48*.

to reduce the price of an essential commodity with a heavy weight in the "C" series index; subsidies on whole milk, firewood and coal were necessary partly to compensate for increased costs but mainly to encourage continuity of supply from relatively depressed industries. Only the basic wage subsidy was directly related to increases in costs but as explained earlier this arose from unavoidable price increases during the introduction of price stabilisation and then, in 1944, from adjustment of minimum female wage rates.

PRICE STABILISATION SUBSIDY EXPENDITURE
(£'000)

	1943-44	1944-45	1945-46	1946-47	1947-48	1948-49
Tea	2,461	2,188	2,356	4,414	6,840	4,667
Imports (excluding Tea)	967	2,437	3,006	3,691	8,538	7,606
Coal	101	183	457	959	2,352	232
Firewood	200	305	201	315	257	
Milk (whole)	319	1,786	2,517	2,253	2,157	564
Potatoes	1,725	2,433	2,830	3,012	2,703	1,065
Rubber		99	141	334		
Tobacco			250	618	41	
Wool (raw)				3,417	9,227	
Basic Wage	1,102	802	555	2,307	609	
Other Expenditure	131	576	670	1,322	2,307	687
Total	7,066	10,809	12,984	22,641	35,031	14,820

Note: Slight discrepancy due to rounding.
Source: *Commonwealth Year Book* No. 38.

Even ignoring these qualifications, total subsidies paid during 1943-45 were much less than might have been expected (and indeed less than were expected at the time).[7] Subsidies paid as a proportion of gross costs amounted to a negligible 0.5 per cent in 1943-44 and 0.7 per cent in 1944-45. This compares with a rise in costs of 5.7 per cent in 1942-43 (assuming that the movement in costs and prices was proportional). Price stabilisation and supporting controls were, therefore, largely successful in halting cost inflation.

It is unlikely, further, that price stabilisation subsidies added much to actual or potential inflationary pressure. In aggregate terms subsidy payments were a minor proportion of both public and gross national expenditure until after the end of the war, as indicated in the following figures:[8]

[7] R. I. Downing ("The Costs and Achievements of Price Stabilisation", *Economic Record*) assumed that cost increases (and hence subsidies) in 1944-45 would be in the region of £30,000,000 to £40,000,000.

[8] Derived from *National Income and Expenditure 1947-48.*

Price stabilisation subsidies as percentage of	1943-44	1944-45	1945-46	1946-47	1947-48	1948-49
Public Authority Outlay	1.0	1.7	2.3	4.9	7.8	2.7
Gross National Expenditure	0.5	0.7	0.9	1.4	1.8	0.7

After 1945, of course, subsidy expenditure was of growing significance in the post-war inflationary situation as the Government attempted vainly to stem the rate of increase in costs without the support of rigorous wartime controls and austerity psychology. The virtually uncontrolled growth of expenditure in 1946-48 was an important factor leading to the abandonment of general subsidy payments in 1948.

WAGES

In principle the pegging of real wages, introduced as part of the National Economic Plan in February 1942, remained unchanged for the remainder of the war. Despite strong pressure from unions and from within the ranks of the Labor Party, the Government held firm to its policy of wage stability (at least in relation to male wages).

Wages were not, however, fixed rigidly and there were ways around the peg—legal and illegal. The automatic cost-of-living adjustment of money wages has been noted above. In addition, industrial tribunals were permitted (with subsequent ministerial approval) to vary rates of pay if an "anomaly" existed in the wage structure of a particular industry or trade. Generally the Commonwealth Arbitration Court had used its discretion sparingly and consistently, although the generosity of individual judges varied to some degree. But some State courts and other authorities were inclined to award general wage increases on the pretext of correcting an anomaly. In a submission to Cabinet in August 1944, Chifley, the Treasurer, argued with only mild exaggeration that

> . . . different State authorities hold different views on economic policy which leads them to interpret the [Economic Organisation] Regulations with varying degrees of severity. In Western Australia, for example, the State Court is almost notorious for its uncompromising views on inflation while in Queensland the State Court still clings in wartime to its romantic notions of fixing a wage that will enable the workers to share in the "prosperity" of the employers—regardless of whether that prosperity springs from improved efficiency in production or mere proficiency in exploiting the public and/or the Treasury.[9]

Some of the difficulty arose from understandable, and unavoidable, ambiguity about the meaning of "anomaly". The basic intention of the regulation was clear enough—to allow any gross injustice that existed at the time the regulations were introduced, and which would normally have been recognised and rectified by the courts, to be removed. The intention was not to eliminate ordinary wage disparities; nor was there

[9] Full Cabinet Agendum 703, 17 Aug 1944.

any provision to deal with anomalies that emerged *after* February 1942. But differences in practice and interpretation between courts and judges, including the view that post-February 1942 anomalies were within their jurisdiction,[1] permitted some upward drift in wages and, more important, aggravated resentment of the wage peg among those workers who were unable to benefit by the loophole.[2]

Dissatisfaction became so strong in 1944 that, to avoid industrial disruption on the issue, the Government accepted some modification of the February 1942 rule.[3] Without altering the fundamentals of the wage peg, two adjustments were introduced in February 1945.[4] A change in employment circumstances since the introduction of the peg, such as a move from one job to another or a reclassification of a position, became a legitimate reason for seeking an alteration of an award. So also was the emergence of an anomaly after February 1942. In an effort to obtain greater uniformity of decisions, the Chief Judge of the Commonwealth Arbitration Court was appointed an arbiter for all cases involving anomalies or special circumstances. All hearings of industrial tribunals in such cases were preliminary until a *prima facie* case had been established; decisions were confirmed by the Chief Judge only after he was satisfied that the alteration was warranted and "in the national interest". Despite the safeguards the door was left ajar for a modest upward lift in wage rates, but until the end of the war the increases were not sufficiently widespread to threaten the price stabilisation policy seriously.

Wage pegging was not interpreted rigidly, however, when the judgment was that wage incentives were required to promote particular manpower or production policies. The regulations deliberately made no mention of industries or occupations for which no award existed, and on several occasions in 1943 by means of the industrial peace regulations the Government initiated a Court hearing which led to the determination of an award for the first time. Largely for manpower reasons the Government promoted a dairy industry hearing which led to the first award for dairy hands and a distinct improvement in wages and conditions.[5] Similarly, an award for grain harvest workers was handed down in October 1943,[6] although on this occasion the motives appear to have been related more to Labor Party principles than to manpower considerations. Further, the wartime authorities controlling the stevedoring, maritime and coal-mining industries were largely independent of the economic organisation regulations for the purpose of varying rates of remuneration.

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[1] The Commonwealth Court made plain in June 1943 that the regulations referred to anomalies that existed on or before 20 February 1942, but the judgment appears to have been ignored by some other industrial authorities. See Manufacturing Grocers Employees' Federation of Australia *v* Victorian Chamber of Manufactures, *Commonwealth Arbitration Reports*, Vol. 50 (1943), p. 441.

[2] Although the Minister for Labour and National Service had formal authority to reject any decision, there was as a matter of principle extreme reluctance to interfere with an award of a court, and the veto was rarely exercised.

[3] Full Cabinet Minute, 28 Aug 1944.

[4] Statutory Rules 1945, No. 11, 1 Feb.

[5] In re the Dairying Industry, *Commonwealth Arbitration Reports*, Vol. 50 (1943), p. 273.

[6] In re the Grain Harvesting Industry, *Commonwealth Arbitration Reports*, Vol. 51 (1943), p. 80.

But these ways of side-stepping the wages peg were of minor significance compared with the efforts to improve female wage rates. The creation of the Women's Employment Board in March 1942 has been noted. Dissatisfaction with the board's activities had been expressed almost immediately from both sides of the industrial fence. The jurisdiction of the board was limited to women workers employed on tasks customarily performed by men for which a male award existed. It was not to override the established arbitration machinery but was to determine on the basis of relative productivity the percentage between 60 and 100 of the male rate that was to be awarded to eligible women. The task was a difficult one, made more difficult by the urgency of the task and the relative inexperience of the board's members.[7] The board's chairman, Mr Justice Foster, had had a good deal of general industrial experience but his judicial experience had been at a comparatively low level. A great many piecemeal decisions were, therefore, inevitable and these aggravated discontent about the way women were treated. There appeared to be no good reason in principle why some women who happened to be engaged on men's work should receive substantially higher rates of pay than others who were employed on equally essential, or more essential, war work. For example, tram conductresses received 100 per cent of the male rate whereas textile and clothing workers were outside the board's jurisdiction and received much lower rates of pay. Matters were made worse from the point of view of industrial relations when women on the same shop floor, and occasionally on similar processes, were treated differently by the board. In several respects the women's employment regulations were counter-productive, for unrest and absenteeism among excluded women increased, while the attractiveness of some important war work—particularly the canning and clothing industries, and in hospitals—was reduced.

Employers were also hostile fearing a backdoor adoption of the equal pay principle. A systematic counter-offensive was launched using all available political and judicial means. In September 1942 the Senate, where the Opposition parties held the majority, disallowed the regulations. The Government promptly reinstated the board and all its decisions by means of the *Women's Employment Act*, legislation which was in substance the same as the original regulations. In December the power of the board was broadened to enable it to make "common rule" decisions,[8] decisions which applied to all women performing the class of work in question. And then in March 1943 the Senate retaliated by disallowing this extension of the board's power. Again the Government moved to patch up the situation by restoring the "common rule" power in a legally acceptable form.[9]

By early 1943 all those with any knowledge of the matter accepted that the position of women's wages was thoroughly unsatisfactory, but

[7] A. W. Foster (chairman), E. I. Cashman, representative of the Commonwealth; A. Upjohn, representative of employers other than Commonwealth; A. R. Wallis and A. W. Henderson, representative of employees.

[8] The board had made "common rule" decisions before but without proper authority. "Common rule" power contained in Statutory Rules 1942, No. 548, 22 Dec.

[9] Statutory Rules 1943, No. 92, 8 Apr.

the Government could find no way out of the tangle. Ward, Minister for Labour and National Service, bombarded the Full Cabinet with submissions in the first half of 1943 but all of these were rejected or shelved. The proposals boiled down either to an across-the-board increase in minimum female rates to at least 75 per cent of the male rate or to regulations which permitted the Arbitration Court to adjust women's wages to remove anomalies that had arisen since February 1942.[1] (The Arbitration Court in a textile workers' case declared on 19th February 1943 that it had no power to deal with anomalies that had been created by the Women's Employment Board.)[2] Uppermost in the minds of Curtin and Chifley at this time was the success of the price stabilisation plan and both of Ward's proposals would have endangered it without heavy government subsidies, an equally unacceptable alternative. By default Cabinet's decision was to sit tight for the time being and accept the maze of female rates as part of the price that had to be paid in wartime.

A further reason for delaying a decision was that the future of the Women's Employment Board was before the High Court between March and August 1943. Following the reinstatement of the "common rule" power the Victorian Chamber of Manufactures challenged the validity of the *Women's Employment Act* and, in particular, the method of reinstatement of the regulations. Sittings of the board were suspended on 24th March with a large number of cases part-heard and pending. The judgment, handed down on 13th August, was unfavourable: the Act was valid but the board was without jurisdiction. In the words of the Chief Justice, "A majority of the Court is of the opinion that the Women's Employment Board can no longer under existing legislation, exercise any of its powers."[3] Apart from the legally improper re-enactment of the regulations, the High Court found fault with the "common rule" provisions. The whole experiment might have been scrapped at this stage had it not been for the volume of uncompleted cases. The board could be reconstituted without much difficulty, but "common rule" could only be restored by extreme legal contortion. Accordingly the board reappeared once again in October 1943[4] to complete its task with its effective power heavily pruned. "Common rule" applications were discouraged—only one was heard—and the board proceeded laboriously to consider the remaining individual cases. The death warrant was signed in September 1944 when the High Court invalidated another important decision.[5] The board was scrapped as a

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[1] Full Cabinet Agenda 423, 458, 490 and 505.

[2] Australian Textile Workers Union *v* Alpha Knitwear Pty Ltd, *Commonwealth Arbitration Reports*, Vol. 49 (1943), p. 770.

[3] Victorian Chamber of Manufactures *v* the Commonwealth (Women's Employment Regulations), *Commonwealth Law Reports*, Vol. 67 (1943), p. 375.

[4] By Statutory Rules 1943, No. 251, 30 Sep.

[5] The Board awarded ninety per cent of the male rate after probation to female glass workers employed on the manufacture of glass tubing and in calibrating glass instruments. The work had not been performed in Australia previously, and the board took a generous view of the relative efficiency of the female glass workers (Re Crown Crystal Glass Co. Pty Ltd, *Commonwealth Arbitration Reports*, Vol. 52 (1944), App. 319). The High Court invalidated the decision on a technical distinction between the words "work" and "process" used in the women's employment regulations. (R. *v* Foster, Ex parte Crown Crystal Glass Co. Pty Ltd, *Commonwealth Law Reports*, Vol. 70 (1945), p. 405.)

separate entity and its functions taken over by the Arbitration Court.[6] Foster was appointed a Judge of the Arbitration Court and delegated to deal with any outstanding business.

From the point of view of wartime economic administration, the value of the board's work through its short chequered career was probably slight. It worked assiduously hearing about 600 applications (some of which were dealt with by committees of reference) and travelled throughout the Commonwealth inspecting working conditions. Accurate figures were not recorded, but approximately 70,000 women were affected by its decisions, or nine per cent of the female work force. Determinations ranged from 75 to 100 per cent of the male rate, with 90 the most common percentage. The logic of the board's decisions was not always apparent, but undoubtedly many more women received a measure of economic justice than had been the case previously. Further, the board established an important precedent even though equal pay was rejected by the Arbitration Court after the war. The board's primary purposes were, however, to facilitate the transfer of women into war work and to prevent undercutting wages of men by women. Through no fault of its own, its success in the former was marginal. The Manpower Directorate soon accepted that wage incentives were not sufficiently strong to achieve much movement of female labour. Frequently more important were such elements as the proximity of home and work place, working conditions including hours of work and canteen facilities, transport arrangements and so on. Married women in particular were more concerned about these conditions than wages. The board was probably more successful in preventing a deterioration of industrial relations on the issue of price competition between men and women workers. While male-dominated unions remained deeply suspicious of the intrusion of women into the industrial work force, the board played an important conciliatory role. Offsetting this was the increased industrial unrest created among women by the board's determinations, but on balance industrial relations would probably have been worse in the absence of the board or similar authority.

At the end of 1943 the centre of attention in relation to women's wages moved from the Women's Employment Board to the Commonwealth Arbitration Court. The Court had been under persistent pressure to increase rates in those trades which did not qualify for a determination by the board. In the absence of an escape route, the pressure had been firmly resisted. But in December Judge Drake-Brockman awarded substantial increases to female workers in the clothing and rubber industries, increases which in each case set the rate at 75 per cent of the "needs" basic wage.[7] In the case of the clothing industry, the primary reason for the increase was not that an anomaly existed but that

> present conditions often require the transfer of large numbers of women workers within the industry from highly skilled and, consequently, highly paid work to

[6] Statutory Rules 1944, No. 149, 11 Oct.

[7] A.B.U. Manufacturing Co. Pty Ltd *v* Amalgamated Clothing and Allied Trades Union of Australia, *Commonwealth Arbitration Reports*, Vol. 51 (1943), p. 632, at 648.

less skilled and consequently lower paid work. This leads to industrial unrest and induces many of them to take advantage of every possible occasion to get out of the industry into other occupations at least as good and sometimes more highly paid than they have been accustomed to elsewhere. To keep these women in the industry and to attract others is the reason for the making of these applications.[8]

In accepting this argument Drake-Brockman added that the increases were granted "on the basis of wartime requirements and for that purpose will have to some extent to depart from the sound economic basis of wage fixation which has always guided the Court when making awards for this industry".

Although the application received ministerial authorisation and related to the variation of an interim award made in 1941, the variation was of dubious validity. The Court had no power to volunteer its assistance to the manpower authorities in this way even if help had been sought. It is true that the clothing and rubber trades had had serious difficulty in attracting labour in 1943 and that their output was essential for the war effort; but other vital industries were in a similar position. By increasing wages in two parts of the "vital sector" pressure was merely transferred to other parts. The matter was made more difficult by the fact that other judges rejected Drake-Brockman's arguments as bad in law, Judge O'Mara declaring that "it is no function of this Court to attempt in present circumstances by award fixation to mobilise and distribute manpower according to the national importance of the industry and the priority of the work. That is a function which has been assigned by law to the Director-General of Manpower . . . ".[9]

For political reasons the award could not be nullified, and in any case the Government was in sympathy with the variation notwithstanding the embarrassment that had been caused. The device that was used to bring female rates in all vital industries in line proved to be too clever by half. Regulations issued in July 1944[1] authorised a reference to the Court to determine whether "minimum rates of pay for females . . . are unreasonably low in comparison with the minimum rates of pay for females employed in other industries . . . which are vitally necessary during the war". The vital industries were the clothing, textiles, food processing and munitions manufacturing industries, and also affected were those employed as domestic staff in hospitals. The hope was that the minimum rates in all these industries would be increased to 75 per cent of the "needs" basic wage for the duration of the war and six months thereafter. The economic organisation regulations would be suspended temporarily for this purpose. In five separate and contradictory judgments handed down in May 1945 the Court found, by a three to two majority, that minimum

[8] p. 635.

[9] Australian Boot Trade Employees' Federation *v* Avro Slipper Co., *Commonwealth Arbitration Reports*, Vol. 53 (1944), 378.

[1] National Security (Female Minimum Rates) Regulations, Statutory Rules 1944, No. 108, 19 Jul.

rates were not in comparative terms unreasonably low.[2] The majority view reflected among other things resentment at what was believed to be an improper use of the Court's function, and also rejection of the implied new scale for women's wages.

By this time the matter had ceased to have anything to do with wartime administration and was now a matter of post-war political policy. At the end of August, a fortnight after the end of the war against Japan, minimum rates in "vital" industries were increased by regulation to 75 per cent of the appropriate male rate but the six months limitation still applied.[3] Plainly the move was designed to make a return to 54 per cent as difficult as possible, but it was not until 1950 that 75 per cent was established for all women.

NOMINAL AND REAL WAGES, MALE AND FEMALE
(average weekly wages)

	Money wages					Index of real wages	
	Males		Females		Female percentage of male rate		
	s.	d.	s.	d.		Male	Female
1939	95	3	52	8	55.3	100	100
1940	98	1	54	3	55.3	97	97
1941	104	3	58	2	55.8	98	99
1942	115	8	64	4	55.6	100	101
1943	119	5	68	4	57.2	103	107
1944	119	6	71	11	60.2	103	112
1945	120	4	72	0	59.8	104	112

Note: December quarter figures in each case. Real wages obtained by use of "C" series index of retail prices.

Source: *Labour Reports.*

Despite the confusion and irritation by the female wage expedients that were adopted, the wage-pegging policy was in general highly successful. The official figures indicate that male wages were stabilised from mid-1943. Female wages continued to rise but not at a rate which had any serious effect on price stabilisation. In any case the more important increases in female rates, for example in the clothing trades, were covered by government subsidy. The success of the scheme was the more remarkable because of the extreme pressure on labour resources. Wage-pegging was difficult to police and it was well known that many private deals were made between employer and employee to supplement earnings, either in a monetary or non-monetary form. The table probably underestimates, therefore, the actual level of wage payments in the latter stage of the war. But with prices and, indirectly, profits rigidly controlled, the scope for under-the-counter payments was limited and the effectiveness of the plan was not seriously impaired.

[2] An Inquiry by the Court into Female Minimum Rates — Textile Industry, *Commonwealth Arbitration Reports*, Vol. 54 (1945), p. 613.
[3] Statutory Rules 1945, No. 139, 30 Aug.

RENT

Rent control policy remained substantially unchanged from the end of 1941 until mid-1945.[4] The Commonwealth Landlord and Tenant Regulations of 28th November 1941, which had pegged rents throughout Australia (except in Western Australia and South Australia where legislation similar to the Commonwealth regulations was judged to be adequate) and had provided protection against eviction, were progressively widened during 1942-44, but the principles remained the same. As measured by the "C" series index, rents of four- and five-room houses remained virtually unchanged until shortly before the transfer of control to the States in 1948. Certainly, "key money" and "furniture money" was demanded and rented premises were allowed to deteriorate, but these and other ways of securing increases in income from, and vacant possession of, property were not common until after 1945. The regulations were in general applied rigorously and to the benefit of occupying tenants.

In addition to consolidating the large number of small changes since 1941, the purpose of the Landlord and Tenant Regulations of June 1945[5] was to bring "shared accommodation" within the scope of rent control. In other respects the new regulations were similar to those of 1941. Rents were pegged at the same dates, although a provision was added pegging the rents of premises built since the prescribed dates at rates ruling on 1st March 1945. The eviction provisions were the same and the administration of the regulations other than those relating to shared accommodation remained with Fair Rents Boards.[6]

The need for rent control of shared accommodation sprang from the severe wartime housing shortage which was made worse by the beginning of demobilisation in 1944-45. Frequently the only alternative available to newly married couples and those required to change the location of their occupation was to seek the use of a room or two from relatives, friends, or those willing to let a portion of their house. In the absence of specific measures to control this form of tenancy, unscrupulous landlords were able to exploit the position and charge excessive rents.

The guidelines for rent determination of shared accommodation were similar to those laid down in 1941 for ordinary rented premises.[7] However, in this instance rents were to be determined by a Commonwealth Rent Controller[8] who delegated detailed administrative responsibility to a Deputy Rent Controller in each State. The Fair Rents Boards were already heavily overburdened and would have been unable to cope with the flood of applications for rent determination of shared accommodation, although

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[4] For details see Butlin, *War Economy 1939-1942*, pp. 52-53.

[5] Statutory Rules 1945, No. 97, 15 Jun; commenced 2 Jul.

[6] Hotels and holiday homes were excluded from control, but "holiday" premises were loosely defined in the regulations and this allowed unscrupulous landlords to charge very high rents for accommodation which was not ordinarily used for holiday purposes. On 19 Dec 1946 this loophole was closed substantially by insertion of a restrictive definition of holiday premises in the regulations.

[7] The main factors were capital value of premises, rates and insurance, cost of repairs, depreciation, interest, rents of comparable premises, and hardship to either lessor or lessee as a result of a change in rent.

[8] D. J. Commons.

Boards were to act as courts of appeal against any decision of the Rent Controller. In addition, the Rent Controller was to co-ordinate and unify rent control policy. In general the regulations were successful in reducing the rents of shared accommodation. From the introduction of the regulations to 30th June 1948, the Rent Controller was responsible for 35,768 shared accommodation determinations. Of these, rents were decreased in 20,954 cases, increased in 6,147 and unchanged in 8,667. The net effect of all these determinations was to reduce rents by about thirteen per cent. By contrast the effect of determinations for other than shared accommodation was to increase rents slightly, at least after the end of the war. In 1947, for example, 12,366 determinations of this type were made of which 6,256 resulted in rent increases, 3,575 in decreases and 2,535 unchanged. Eviction applications also stood a greater chance of success after the war. In the two and a half years to 30th June 1948 15,593 eviction applications were granted and 11,291 refused. Comparable statistics are not available for the war period, but other evidence indicates that a much lower proportion of eviction applications were successful before 1945.

During the three post-war years of Commonwealth rent control the Landlord and Tenant Regulations continued to be among the most frequently amended sections of the wartime system of economic regulation.[9] The regulations were altered again on 30th December 1946 when the power of the Fair Rents Boards to determine rents was transferred to the Commonwealth Rent Controller.[1] This change was due partly to the inevitable lack of uniformity in the decisions of a multiplicity of Boards, and partly to the belief that many tenants were reluctant to seek a determination because of the semi-legal nature of the Board's proceedings. A long series of procedural changes designed, primarily, to protect tenants against various devices used by landlords to secure vacant possession came into force on 14th March 1947.[2] Then on 26th February 1948 further changes of a technical nature were made necessary by a decision of the High Court which declared, in effect, that the Rent Controller had no power under the regulations to vary determinations *of his own volition* when a mistake had been made, such as the use of an incorrect valuing procedure or the use of incorrect information.[3]

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[9] Responsibility for the regulations was transferred from the Minister for Trade and Customs to the Minister for Works and Housing on 16 Oct 1945.

[1] However appeals against decisions of the Rent Controller were heard, in the first instance, by a magistrate sitting as a Fair Rents Board.

[2] *Commonwealth Gazette*, 3 Mar 1947. The more important amendments were as follows: 1. Eviction proceedings were restricted to courts of summary jurisdiction such as Courts of Petty Sessions. This prevented lessors using a Supreme Court hearing to gain an advantage over tenants. For financial reasons most tenants were unable to present their case adequately in the Supreme Court. 2. No appeal (other than to the High Court) was permitted in ejection proceedings except on questions of law. This was also designed to prevent hardship being inflicted on tenants called on to defend appeals based on insubstantial grounds. 3. For similar reasons landlords were prevented from appealing against an unsuccessful ejection hearing within six months without leave of the Court. 4. A new lessor of a dwelling house was prohibited from giving notice to quit on grounds of personal occupation until six months after the date of purchase. 5. The maximum period of notices to quit was reduced from 60 to 30 days. 6. To prevent trafficking in tenancies, notices to quit could be given in the event of a transfer of a tenancy without the lessor's permission and sub-letting without permission.

[3] R. *v.* Commonwealth Rent Controller; Ex parte National Mutual Life Association of Australasia Ltd, *Commonwealth Law Reports*, Vol. 75 (1947), p. 361. The amending regulations were designed to preserve the effect of earlier determinations and to clarify the right of the Rent Controller to vary determinations without the need for an application by lessor or lessee.

These frequent changes reflected the complexity of rent control administration in conditions of extreme housing shortage, and also the determination of the Government to retain Commonwealth rent control for as long as needed to prevent uncontrolled rent inflation. State governments also accepted the need for the retention of Commonwealth control for the time being, and in any case were not anxious to accept responsibility for a difficult and unpopular measure.[4] Thus, when the *National Security Act* lapsed on 30th December 1946, rent control was included in the *Defence (Transitional Provisions) Act*;[5] and when this legislation appeared to be open to successful challenge in the High Court the Government sought permanent power over rents and prices by amendment of the Constitution. After the Government's defeat in the rents and prices referendum on 29th May 1948, control of rents was transferred to the States without further delay.[6] In most instances, however, the States adopted the substance of the Landlord and Tenant Regulations in their own legislation.[7]

PRICES ENFORCEMENT

The record of the Prices Branch was less impressive in its efforts to curb breaches of the prices regulations. From 1942 onwards occurrences of black marketing and profiteering or overcharging were increasingly common, and by 1945 price control of such scarce goods as second-hand motor vehicles and bottled beer was largely ineffective. To be sure, similar difficulties were experienced by the Rationing Commission, Liquid Fuel Control, the Controller of Timber and other authorities, but breaches of the prices regulations were generally more common and difficult to contain.

A distinction needs to be drawn between profiteering and black marketing. The essential difference between the two was that black marketing involved collusion between buyer and seller to transact at a price in excess of the legal maximum; the term profiteering applied to the practice of a seller obtaining an illegal price without the explicit consent of the buyer. In practice the distinction was difficult to draw for it was usually impossible to determine whether a buyer was an innocent party or not. Further, depending on the degree of condemnation implied, the terms were used interchangeably. When the press decided that a display of indignation was necessary and would make good copy, the term black marketing was used to describe most acts of illegal pricing. On the other hand, the administering authorities and the courts by inclination

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[4] *Proceedings of Conference of Commonwealth and State Ministers*, Canberra, 20-21 Aug 1946, pp. 8-11.

[5] It was agreed at the Premiers' conference of Aug 1946 to continue rent control on the basis of complementary Commonwealth and State legislation. A Commonwealth Bill was drafted, but in the end the *Defence (Transitional Provisions) Act* was used because insufficient time was available to have rent control legislation in force before expiry of the *National Security Act*.

[6] Formal transfer occurred on 16 Aug 1948 in all States except Queensland where the transfer was effected on 1 Sep.

[7] The main exception was the Queensland *Landlord and Tenant Act* of 1948 which pegged the rents of dwelling houses only. Most of the other differences were of an administrative and legal character. In Victoria, for example, determinations were made by Fair Rents Boards consisting of a Police Magistrate from which there was no right of appeal to the Supreme Court except on questions of law. In all States the eviction provisions were similar to those of the Commonwealth regulations.

and legal necessity took a far more restrictive view and proven cases of black marketing were comparatively rare.

Some of the difficulties experienced in containing black market trading were of the Government's own making. In 1942 the Attorney-General mounted a vigorous attack against black marketeers. In the Government's official view, the fines imposed by the courts under prices regulations had been far too low. The maximum penalty under the *National Security Act* was a fine of £100 or six months' imprisonment, but no prison sentences had been ordered and of the 308 cases in which penalties had been imposed fines were less than £10 in 249 instances.[8] As recounted in an earlier chapter, the Black Marketing Bill introduced in September 1942 was designed "to prevent black marketing by providing most drastic penalties for those who indulge in black market operations".[9] Black marketing was defined widely and provided for penalties far in excess of those provided under the *National Security Act.*

But the *Black Marketing Act* remained little more than window dressing. By sharpening the distinction between black marketing and lesser offences such as overcharging, the Act greatly increased the problem of effective enforcement. A thicket of legal and practical difficulties severely hampered investigations and the preparation and presentation of prosecution cases. First, the nature of the evidence required made investigation a complex and time-consuming process. The most satisfactory way of establishing collusion between buyer and seller was for an investigator to buy or sell at an illegal price, but there were few officers who were sufficiently experienced and who were willing to engage in such clandestine activities. Further, the Treasury was not always prepared to release money for the purpose. Second, the preparation of court cases was a long and tedious process, and co-operation between investigating departments and the Attorney-General was on many occasions less than complete. Investigation and the preparation of cases under the *National Security Act* had usually been in the hands of the administering departments although the final stage was handled by Deputy Crown Solicitors in the States. However, the Attorney-General directed that the Solicitor-General take a much more active part in the preparation of black marketing cases, and this produced some misunderstanding particularly when it was not clear whether black marketing or some lesser offence was involved. Only watertight cases were accepted for prosecution under the *Black Marketing Act* and it was common for cases to be delayed for many months until all legal technicalities had been clarified. The backlog of general litigation added further delay so that it was common for black marketing cases to reach the courts from nine to twelve months after offences were committed. Third, no change was made in the penalties under the *National Security Act.* The authorities were therefore faced with a difficult choice

[8] *Commonwealth Debates,* Vol. 172, p. 663.
[9] *Commonwealth Debates,* Vol. 172, p. 662.

in many cases: to proceed via the *Black Marketing Act* (*minimum* penalty for individuals £1,000) or via the *National Security Act* (*maximum* penalty for individuals £100).[1] This gap was too wide, particularly as the distinction between black marketing and profiteering was in practice difficult to draw. Thus, as the atmosphere of national crisis receded towards the end of the war, there was a natural reluctance to proceed under the *Black Marketing Act*—especially as a black marketing conviction was difficult to obtain. But the judiciary continued to regard breaches of National Security Regulations as petty offences; and, given the general public antipathy towards the regulations and the slight chance of a satisfactory conclusion to a case, investigators showed little enthusiasm for their work.

As far as the Prices Branch was concerned, the *Black Marketing Act* was for all intents and purposes a dead letter until 1945. During 1943 and 1944 there were only two recorded convictions under the Act in connection with breaches of the prices regulations. There was much breast-beating by the Prices Commissioner at the inadequacy of administrative arrangements and the legislation, but the Attorney-General refused consistently to pursue cases recommended by the Prices Branch under the Act. Many cases prepared by the Branch contained obvious weaknesses in evidence, and in any case the Attorney-General accepted the fact that there was little chance of obtaining a black marketing conviction from a prices case. Most of the limited wartime activity under the *Black Marketing Act* was in connection with liquor offences, and nearly all were clear instances of organised crime. In the two and a half years to February 1945 the Attorney-General initiated 59 black marketing prosecutions. Of these 25 resulted in convictions, 10 cases were not proceeded with, 8 were changed to prices or liquid fuel prosecutions, 5 were dismissed or upset on appeal, and 11 were undecided.

By 1944 evidence was accumulating that the scale and sophistication of black market trading was rising swiftly. The Japanese were on the way to defeat and the community sought relief from austerity campaigns and government by regulation. But real shortages persisted and in some instances intensified. High potential spending power combined with weaknesses in the law and its administration made conditions ideal for illicit trading. Previously the extent of black marketing had probably been exaggerated by the press, but by 1944 it is probable that the increasing frequency of campaigns against black marketeers reflected reasonably accurately the growth of this type of traffic. Black marketing was probably most common in the liquor trade where demand, inflated by the presence of free-spending Americans, ensured large profits to any establishment that could obtain adequate supplies. Some moderate-sized hotels in the Sydney area were reported to be earning £10,000 gross profit per month, and it was claimed by investigators that nearly all hotels in north Queens-

[1] There was no real gap between the Acts in imprisonment provisions, but prison sentences were rarely imposed under the *National Security Act*.

land were obtaining "excessive" prices for beer and spirits.[2] By 1944-45 most sales of second-hand motor vehicles and tyres were probably transacted at prices well in excess of the prescribed maximum,[3] and black markets were also common in tobacco, fodder (during the drought and especially in Victoria), building materials, meat and fish.

The acknowledged increase in black marketing produced little official response. As a gesture a special court was established in Sydney, on the Attorney-General's initiative, to expedite hearings, and he also directed that the Security Service take a more active part in investigations. But the Security Service resisted involvement, pleading manpower problems, and there followed no notable increase in the effectiveness of detection and prosecution. During 1943 and 1944 Cabinet simply "noted" serious instances of black marketing that were brought to its attention.[4] But by early 1945 the matter could no longer be ignored and an interdepartmental committee was appointed in April to investigate and report on remedial action.[5] Most of the committee members[6] were more concerned with their own departmental problems than about black marketing, and the approach adopted was to look for ways of closing administrative loopholes. More fundamental changes, such as the Cabinet's suggestion that the several and largely independent investigation branches be amalgamated, were resisted. The outcome was a piecemeal list of recommendations including a general tightening of regulations applying to black market goods, an increase in staff attached to the Solicitor-General, the establishment of additional special Courts in capital cities, and the granting of additional power to relevant departments to license traders dealing in commodities in which black marketing was prevalent.[7]

These recommendations were endorsed by Cabinet[8] and the departmental committee was retained to consider reports from investigators and recommend action to the Attorney-General. There followed some intensification of departmental activities against black marketeers, mainly because the easing of the manpower shortage allowed some increase in staff. But the old problems remained and some new ones emerged with the cessation

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[2] The black market in liquor was probably the most difficult illegal market to police, mainly because of the size and profitability of the trade. But the Prices Commissioner added to his difficulties by refusing to adjust profit margins on bottled beer. Using pre-war standards, the Commissioner set the margin on bottled beer much lower than on draught beer, thus ensuring that bottle beer was virtually unobtainable at the legal city maximum of 1s. 7½d. (The black market price was usually 3s. per bottle.) The Commissioner's view was that pre-war profit relationships should not be upset and in general this was a sensible decision, but not when applied as an administrative rule instead of as a policy guideline.

[3] The second-hand car market was particularly difficult to police as sellers were able to dispose of their vehicles outside the usual trade channels. The usual procedure was for an intending seller to place an advertisement offering for sale a vehicle at the legal maximum price. Respondents were, however, told that the vehicle in question had been sold already, but that another was available at a higher price. Formally, the transaction was recorded at the maximum price allowed, the difference being handed over in cash and ostensibly in settlement of a gambling debt or the like.

[4] For example, Full Cabinet Agendum 600, 24 Jan 1944.

[5] Full Cabinet Agendum 830, 23 Apr 1945.

[6] The committee consisted of representatives of the Attorney-General's Department, Department of Supply and Shipping, Department of Trade and Customs, Department of Post-War Reconstruction, Department of Transport, the Rationing Commission and the Prices Branch.

[7] Report of Departmental Sub-Committee on Black Marketing, Jun 1945; also notes on meetings of Black Marketing Sub-Committee, 10 May and 13 Jun 1945.

[8] Through the Cabinet Sub-Committee on Pillaging from Wharves and Ships. Full Cabinet Agendum 830A.

of hostilities in the Pacific. After the war the courts were even more reluctant to impose severe penalties; much of the public's remaining disapprobation of black marketing was quickly eroded. An offence had to be serious, including evidence of organised black marketing, before the Attorney-General authorised a prosecution under the *Black Marketing Act*. Indeed, from mid-1945 until the end of Commonwealth price control, the authorities devoted most of their attention to organised black marketing in the hands of known criminals; isolated occurrences even when detected received little attention. The statistical record of cases submitted for consideration was not well kept and is probably incomplete, but in this period 135 cases appear to have been put before the departmental committee and later to the Attorney-General. Of these 70 were proceeded with under the *Black Marketing Act* and 65 under the *National Security Act*. Results were as follows:

Under the *Black Marketing Act*:	
Convicted[9]	43
Withdrawn	17
Dismissed	8
Lost on appeal	1
Convicted on appeal	1
Total	70
Under the *National Security Act*:	
Convicted	37
Dismissed	18
Withdrawn	10
Total	65

As mentioned, these 135 cases were regarded as the most serious offences, but even then the conviction rate was only sixty per cent. During the six years of the *Black Marketing Act* there were a mere 44 successful prices prosecutions under its provisions.

The administrative record of detection and prosecution is, of course, only a small part of the story. The more important question is the extent to which black marketing—to use the term in its popular sense—disrupted the national war effort. Unfortunately, no conclusive answer can be given. It was claimed at the time that black marketing lowered morale and led to a maldistribution of commodities in short supply. It is clear that there was some departure from the Government's intended distribution and that those with high incomes were able to outbid those in lower income brackets. But maldistribution was prevalent in a comparatively narrow range of commodities, and most of these were non-essential. It might be argued that those able to obtain more than their fair share of liquor deserved what they got, while the main effect of the black market in

[9] Of these 43 convictions, 21 concerned liquor, 3 meat, 3 fodder, 3 used cars, 2 cigarettes, 1 potatoes, 1 furniture and 9 unspecified.

second-hand vehicles was to overcapitalise in post-war terms the vehicles concerned. The illicit trade in meat, fodder and potatoes was more serious from the community's point of view, but it is probable that the extent of this trade was not sufficiently great to distort distribution significantly. The effect of black marketing on morale is an open question. It is significant, however, that black marketing did not become an issue of political importance despite repeated efforts by the press to make it one. A degree of black marketing was tolerated by the Government and the community, and it does not appear that the margin of tolerance was generally exceeded. However, the growing evidence towards the end of the war and after that the regulations were being broken with impunity so frequently probably helped to erode public support for the *National Security Act*. Further, the black marketeers played some part in undermining public acceptance of Labour's edifice of post-war economic planning.

CHAPTER 20

FINANCIAL POLICY

BY early 1943 the basic principles of wartime financial policy had been established. Through the introduction of uniform taxation, the Budget of 1942-43 and the Financial Statement of February 1943, a course had been set for increasing the proportion of war costs financed by taxation. In 1942 the diversion of real resources to the war effort had proceeded more rapidly than had the Government's ability to increase its command over financial resources by taxation and public borrowing, so that the gap was of necessity met by the inflationary expedient of placing Treasury bills with the Commonwealth Bank. Thus the highest priority was accorded the elimination of Treasury bill finance. The whole structure of economic controls designed to reduce private spending depended on the containment of inflationary pressure, as did the price stabilisation policy itself. So also did the programme of long-term public loan raising at the lowest possible rates of interest, and the controls on property transactions designed to dampen speculation.

THE TAX HARVEST

Uniform taxation and the subsequent increases in rates had a marked effect on the rate of growth of total taxation collections and on the structure of Commonwealth taxation. Primary emphasis had been placed on increases in personal income taxation, and for the first time, in 1942-43, revenue from personal assessments exceeded customs and excise collections. This change, as reflected in the growth of income tax revenue during the final three years of the war, had major implications for Australian economic history well beyond the war period. Of immediate significance, however, was the increased scope thus provided for closing the inflationary gap and maintaining the fully mobilised war economy.

Given the increased rate that had been imposed, there was a clear political limit to the scope for further upward revision. Indeed, there were no important wartime changes in rates after February 1943, and the budgets of 1943 and 1944 were in the nature of routine financial summaries rather than the occasion for the introduction of new policies. In 1943 a proposal to impose a further tax on those without dependants was canvassed but was abandoned as administratively complex and unlikely to add significantly to revenue. In 1944 some minor concessions were granted,[1] but again the basic structure of taxation remained unchanged. The last two wartime budgets received very little detailed consideration by Cabinet as the main variables were predetermined; the budget had yielded to the manpower authorities primary responsibility for resource

[1] In the form of increased deductions for medical and dental expenses, an increase from 16 to 18 years in the maximum age of children receiving full-time education for which a rebate of tax could be claimed, and the elimination of sales tax on building materials.

allocation.[2] In 1945 personal income taxation was reduced by an average of 12½ per cent, concessional deductions were increased and a number of sales taxes were reduced, but these were post-war measures.

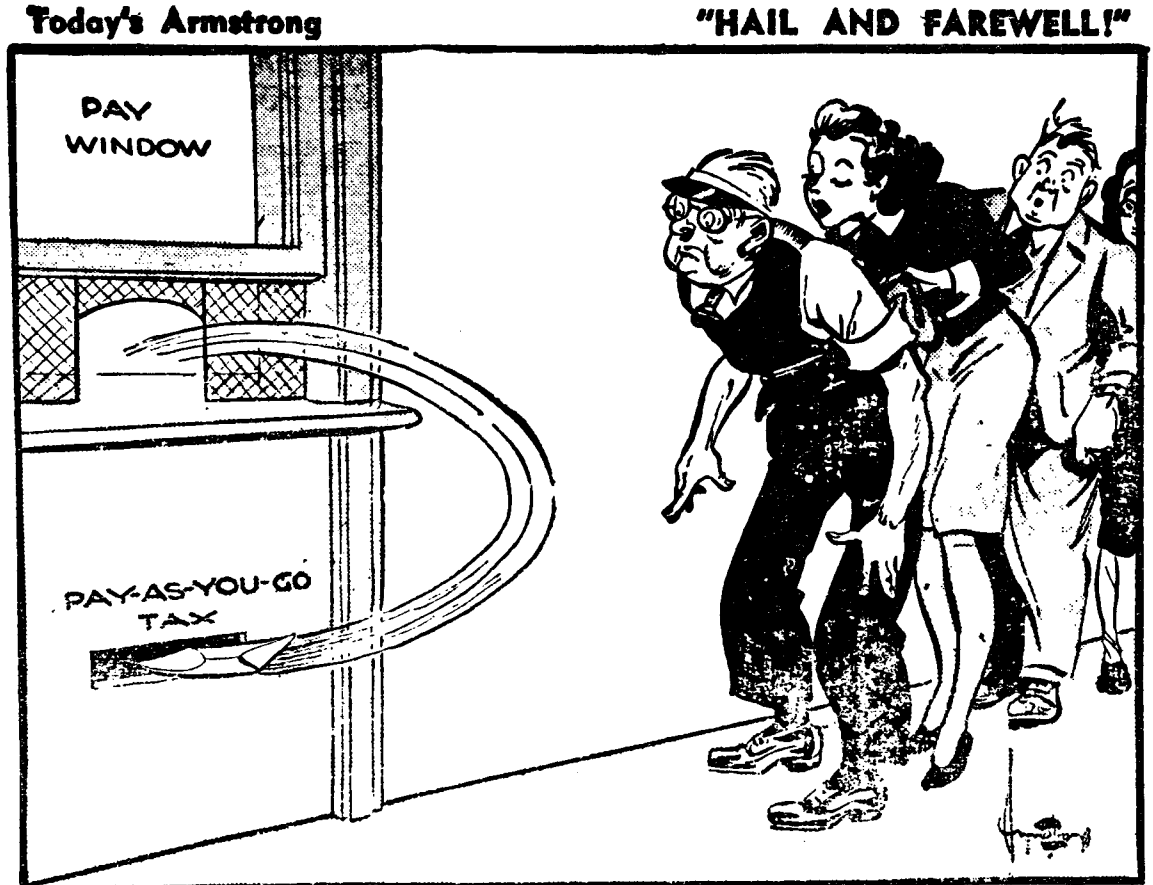
COMMONWEALTH TAXATION REVENUE AND GROSS NATIONAL PRODUCT

	1941-42	1942-43	1943-44	1944-45	1945-46
G.N.P. at market prices £m.	1,283	1,485	1,496	1,455	1,471
Total taxation £m.	177.8	255.4	301.7	335.9	351.2
As per cent of G.N.P.	13.9	17.5	20.2	23.1	23.9
Personal income taxation £m.	46.9	93.0	132.5	155.7	159.3
As per cent of G.N.P.	3.7	6.4	8.9	10.7	10.8
Customs and excise £m.	56.8	64.9	67.3	67.2	78.0
As per cent of G.N.P.	4.4	4.5	4.5	4.6	5.3
Company taxation £m.	30.7	48.0	51.3	59.9	55.3
As per cent of G.N.P.	2.4	3.3	3.4	4.1	3.8
Sales taxation £m.	26.8	28.9	27.9	29.7	33.6
As per cent of G.N.P.	2.1	2.0	1.9	2.0	2.3
Other taxation £m.	16.6	20.7	22.7	23.5	25.0
As per cent of G.N.P.	1.3	1.4	1.5	1.6	1.7

Note: Detail may not add because of rounding.
Source: *National Income and Expenditure 1947-48* and Budget Papers.

However, a new feature of the taxation system introduced in 1944 was "pay-as-you-earn". Although not designed for the purpose, P-A-Y-E did have the incidental effect of swelling Commonwealth revenue once-for-all in 1944-45. In principle there was nothing new in instalment deductions at the source for wage and salary earners. Before the war Victoria, South Australia and Queensland had a system of weekly instalment deductions by means of tax stamps which were applied in payment of an assessment based on annual income, and in New South Wales payment of the unemployment relief tax of the nineteen thirties was arranged similarly. When the weight of Commonwealth taxation began to rise in 1940, making desirable a spreading of taxation collection, a conference of taxation officials recommended that tax stamps should be used at the Federal level. The scheme was introduced after some delay on 1st January 1941 and, because of the previous State experience, was generally accepted but with some trade union opposition in New South Wales. In 1940-41 the collection period was limited to twenty-five weeks, but in the following year was extended to forty weeks with the period from the first week in May until 1st August as a "tax holiday" to allow the Taxation Department to concentrate on the processing of returns at the end of the financial year. By later standards the system was a crude method of distributing the burden of taxation over a proportion of the year and was subject to some abuse. In 1942, for example, there developed an illicit traffic in tax

[2] The Treasury continued, of course, its traditional role of pruning departmental estimates as far as possible, a role in relation to war departments which was of particular importance in 1943 and 1944. Treasury's responsibility at this time was to ensure that war departments estimates reflected the withdrawal of manpower. In 1944, for example, the war estimates were reduced from £537,000,000 to £505,000,000 after a strenuous tussle with the Services. Full Cabinet Agendum 700, 24 Aug 1944.



Armstrong in Argus *(Melbourne) 11 Jul 1944.*

stamps, a traffic made possible by the fact that stamps were issued without counterfoil and were handed to employees before cancellation. At this stage, also, the group system was confined to large employers and government departments. The chief sources of supply for the illicit trade were casual and itinerant workers, many of whom had never lodged returns and wished to escape the taxation net. The price of the stamps probably varied widely; the Sydney press claimed that for quantities of £50 and upwards the price was fifty to sixty per cent of face value. The traffic was curtailed in 1943 by close examination of those claiming large refunds and by systematic prosecution of offenders, but was not eliminated until dividend stamps with an identification device were issued in 1944. For the same purpose the group certificate system was extended to all employers of ten or more people.[3]

The more important deficiency of the original system was, however, the existence of the taxation "lag". Instalments were deducted not in proportion to current income but in relation to the previous year's income as assessed, and deductions continued until taxation liability had been liquidated. While income was fairly stable there would be no problem in meeting last year's liability from the current year's income, but if income slumped there would be major difficulty in collection and payment. As thoughts turned in 1943 to post-war prospects and the possibility of a major economic contraction, official and private interest in the prospect of eliminating the taxation "lag" increased.

While there was consensus about the need for the switch to P-A-Y-E as soon as possible, formulation of a specific proposal proved to be a long and complex procedure. Discussion within the Treasury was initiated early in 1943; formal proposals were considered by a conference of taxation officials in August and by a Joint Parliamentary Committee which presented its report in February 1944. The two main issues were, first, the transitional problem of dealing with the technical liability for double taxation in the first year of P-A-Y-E and, second, the method to be adopted in the case of non-employees. A solution to the first required some degree of "forgiveness" of tax liability. For it was obviously impractical to collect in one year the whole of the previous year's tax from those outside the instalment system and at the same time introduce P-A-Y-E deductions. The formula that was adopted relied heavily on the Ruml Plan for the United States and a similar scheme for the United Kingdom. Ruml, a New York banker, proposed simply that the taxation lag should be cancelled completely, but in a compromise to assist the revenue the United States Government in June 1943 set "forgiveness" at 75 per cent of a full year's tax and required the payment of the uncancelled 25 per cent. Similarly, the Joint Parliamentary Committee recommended—and the Government subsequently accepted—75 per cent "forgiveness" as a compromise between either the issue of two assessments in the one year or complete cancellation of the taxation lag. The compromise figure had the merit of disturbing the revenue as little as possible and also of avoiding

[3] *Income Tax Assessment Act*, No. 3 of 1944.

any significant variation in employee tax instalments. For with the commencement of the annual deduction period on 1st April, employees would have paid about twenty five per cent of their liability for the year by 30th June 1944. Thus, the transition to the new system was barely noticed by the bulk of employees, and there was no interruption to the flow of taxation receipts.

The situation was far more complex for non-employees and some disruption was unavoidable. The Taxation Advisory Committee recommended in August 1943 that a version of the instalment system should be extended to non-employees by means of provisional assessment *by the taxpayer* of his liability for the year, and that instalments should be remitted to the Taxation Department at prescribed intervals. Although self-assessment was the practice in the United States and Canada, the Treasurer was strongly opposed to the method on the grounds of equity and because of the growing complexity of the taxation structure especially in relation to primary producers. The Joint Parliamentary Committee therefore suggested provisional assessment by the Taxation Department, the assessment to be determined on the basis of the previous year's income with a debit or credit adjustment at the end of the year. Provisional assessment by this means was ill-suited to the problem of income fluctuation from one year to the next, but the Government accepted the deficiency as the price of simplicity. As there was no prepayment of tax as at 30th June 1944 in the case of non-employees, payment of the twenty five per cent assessment for 1943-44 was spread over the three following years in three equal instalments. To this limited extent, therefore, P-A-Y-E added to revenue collection; except in a purely legal sense "forgiveness" was illusory.

Again following American and Canadian precedent, the Government decided that P-A-Y-E should not apply to companies. The arguments were that companies had continuity of existence; they usually made provision for taxation out of income before distributing profits; and, normally, net assets would be sufficient to meet any tax in the event of liquidation.

With uniform taxation, the introduction of P-A-Y-E in 1944 completed the wartime revolution in the taxation system. The great advantage of the system was that it ensured a regular and more reliable flow to Consolidated Revenue. For wage and salary earners in particular it was a less painful way of extracting national tribute. In addition, P-A-Y-E had some bearing on the continuation of uniform taxation after the war, for the States were placed at an additional disadvantage. To be sure, the Treasurer, Chifley, had no intention of permitting a reversion to the old system: the Commonwealth's commitments in the fields of reconstruction and social welfare excluded the return of a substantial proportion of income taxation to the States. But the 75 per cent "forgiveness" involved that part of the uniform tax which had replaced the State levies. If the States were to re-enter the field, they could either accept P-A-Y-E or revert to the method of assessing tax on the previous year's income. The latter would have involved a delay of a year or, in the first year of reversion,

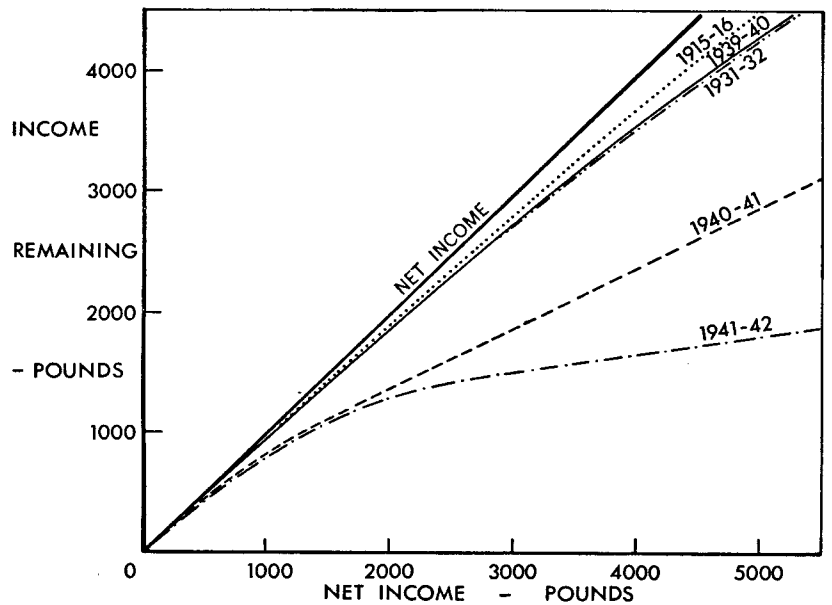
taxation on incomes on which the full uniform levy had already been paid. Again, if the States accepted P-A-Y-E they would have had to sacrifice a year's collection from each taxpayer when he ceased to earn. In short, P-A-Y-E was the first step towards confirmation of the Commonwealth's assumption of the exclusive right to the field of income taxation and advance notice that it did not intend to surrender any part of it.[4]

Quite apart from the changes in Federal financial relations, the war transformed the budgetary position of most State governments. In the nineteen thirties all States experienced chronic and persistent budget deficits. With the outbreak of war, revenue expanded rapidly because of the stimulation of Commonwealth war expenditure; railway receipts in particular responded to the great increase in traffic associated with the movement of war materials and troops. Similarly, the growth of expenditure was arrested as the need for unemployment relief evaporated, as public servants were transferred to the Commonwealth, as debt service charges fell with the decline in interest rates, and as the Commonwealth in 1942 assumed greater responsibility for social welfare payments. Thus, in 1941-42 the States recorded, collectively, the first budget surplus since before the depression of the 'thirties and, despite the pegging of reimbursement grants on the average of State income tax collections in 1939-40 and 1940-41, a combined surplus continued to be recorded until after the end of the war. Indeed, an important reason for the pegging of the reimbursement grant was to limit as far as possible the claims of the States on resources.

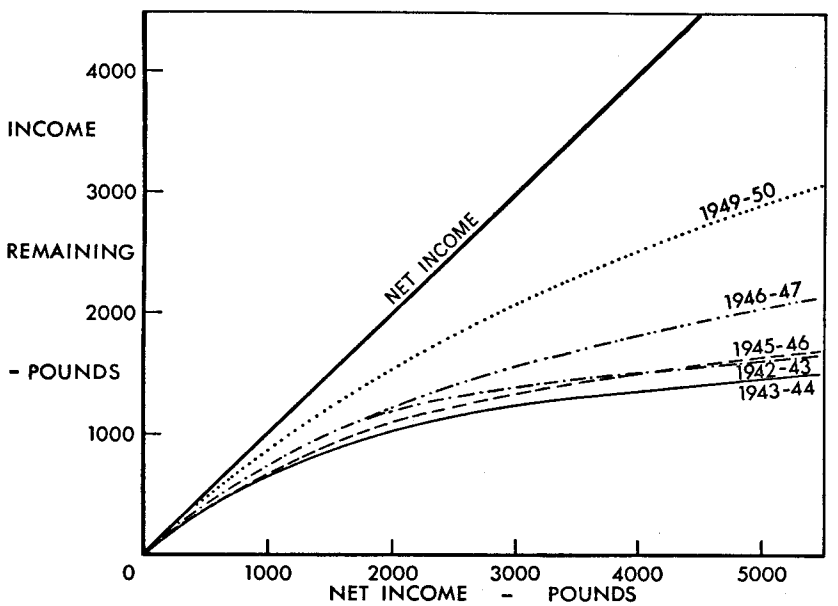
The States were affected unequally, however, by Commonwealth war expenditure. Victoria and New South Wales as the most heavily industrialised States received the greatest stimulus and, with Queensland, most of the benefit of the increased railway traffic. Tasmania and Western Australia received comparatively little advantage in a budgetary sense, while South Australia was in an intermediate position. Because of this inequality, and the temporary nature of the change, the Commonwealth Grants Commission continued to operate in the war years but on an altered basis. Since 1933 the Commission had developed a method of compensating the claimant States—South Australia, Western Australia and Tasmania—for their financial disabilities associated with the federal union, especially the Commonwealth's tariff and industrial policies. Special grants were made to enable the claimant State to carry on at a "minimum standard" with "reasonable efficiency". In the nineteen thirties the "minimum standard" had not meant that the budget deficit of the claimant State would be covered; because all states were afflicted with deficits a "deficit standard" was adopted: claimant states were provided with grants which enabled them to lift their budget expenditure to the average of all the states as measured on a *per capita* basis.

[4] The States were not consulted about the introduction of P-A-Y-E. The Solicitor-General advised that consultation was unnecessary and undesirable because it might involve the Commonwealth in some explicit or implicit commitment about the post-war continuation of uniform taxation.

COMMONWEALTH INCOME TAXES BEFORE UNIFORM TAXATION – PERSONAL EXERTION INCOME REMAINING



COMMONWEALTH INCOME TAXES AFTER UNIFORM TAXATION – PERSONAL EXERTION INCOME REMAINING



With the wartime improvement in State finances, substantial modifications were necessary in the Commission's method of assessment. The most important was the replacement of the "deficit standard" by the "balanced budget standard", a balanced budget now being regarded as the normal objective for the claimant States. A surplus standard might have been justified by actual experience, but the higher grants that would have been necessary would have been inconsistent with the policy of clamping down on State expenditure. The standard would also have been inappropriate for the post-war period.[5] In the event, the effect of the lift from the deficit to the balanced budget standard was to maintain approximate stability in the monetary value of special grants, although in real terms there was some decline. Another alteration of principles was in the "effort" required by the claimant States. Until uniform taxation the Commission had required a claimant State "to make a reasonable effort from its own resources before receiving assistance by way of a special grant to meet its budget deficiency".[6] An additional effort was now required; the effort that had been made was assessed by a measurement of taxable capacity. In its 1944 *Report* the Commission relaxed substantially the amount of effort required by a claimant State because of the transfer of income taxation. The Commission still required some effort to be made, but the new lower standard recognised the limited scope for State revenue adjustment.

In summary, wartime changes in the rates and scope of taxation lifted the weight of collection in Australia from a comparatively low level to a median position in 1944. The level of taxation in five Allied countries depicted in the table are subject to the usual qualifications about international comparison of this type, and the figures should be regarded as approximations. The figures relate total taxation less subsidy payments to gross national product, expressed as a percentage. An important reason for the higher levels in New Zealand and the United Kingdom is the extent of collections for social welfare payments. Ideally these should be excluded for present purposes, but variations in the method of financing social welfare between countries would make this a difficult task.

Despite these limitations, the table indicates reasonably reliably the comparatively low level of Australian taxation at the beginning of the war and the extent of the wartime increase. By 1944 the level had increased 54 per cent, an increase exceeded only by the United Kingdom with 73 per cent. Only a small proportion of the rise in Australia was due to the establishment of the National Welfare Fund in 1942. Nevertheless, the Government was only partly successful in shifting the burden of war finance to taxation, as will be seen in the next section. In international terms taxation as a whole was not excessive, and further increases could have been justified; but the Government found itself constrained by the radical changes that had already occurred and by its own doctrine. The low pre-war level was a distinct handicap. New taxation, like recognition

[5] *Eleventh Report of the Commonwealth Grants Commission* (1944), Ch. III.
[6] *Third Report of the Commonwealth Grants Commission* (1936), para. 204.

of personal mortality, seems worst on first acquaintance; further knowledge brings resignation if not full acceptance. With the taxation exemption limit lowered to £104 a year and the top marginal rate set at 92½ per cent in 1942-43, the limit of public tolerance of personal income taxation had been reached. But because of Labour's established principles (and a

LEVEL OF TAXATION IN FIVE COUNTRIES
(net taxation as a percentage of gross national product at market prices)

	1939	1941	1942	1943	1944	1945	1946
Australia	15.6	19.8	21.0	21.8	24.1	24.5	24.7
Canada	17.2	22.7	21.7	22.4	21.8	20.7	23.2
New Zealand	20.5	24.7	27.2	27.9	29.2	28.9	25.7
United Kingdom	17.4	23.5	24.5	29.3	30.1	29.4	24.4
United States	16.4	19.9	20.6	25.6	24.2	24.7	24.1

Note: Australian figures relate to the year commencing 1 July and in New Zealand 1 April; figures for the other three countries relate to calendar years. Taxation covers central, provincial and local government collections including licences, fees, penalties and employer and employee social insurance contributions, but excludes subsidy payments.

Source: G.N.P., Australia, *National Income and Expenditure 1947-48*; Canada, M. C. Urquhart and K. A. H. Buckley (eds), *Historical Statistics of Canada* (1965), Series E12; New Zealand, *New Zealand Official Year Book;* United States, Social Science Research Council project on Economic Growth; United Kingdom, C. H. Feinstein, *National Income, Expenditure and Output of the United Kingdom, 1885-1965* (1972), T.11. Taxation data derived from a chapter of the unpublished departmental history of taxation in World War II, "Income Tax: rates, revenue and incidence", p. 123, except for the United Kingdom which relies on Feinstein, T.35.

desire for price stability) sales taxes were not increased—with only minor exceptions—and remained at a comparatively low level. More surprising was the treatment of company taxation. Rates were, of course, increased sharply. In 1938-39 taxation of public and private companies averaged a nominal 6.1 per cent of net company income before taxation. By 1943-44 combined company taxation (including normal tax, special property tax, super tax, undistributed profits tax and wartime company taxation) reached a wartime peak of 40.6 per cent. This was still comparatively moderate by international standards (outside North America) and by later standards. The inhibiting factor appears to have been the drastic proportional increase that had occurred already.

LOANS FOR VICTORY

You can fight with your sacrifices, with your unflagging spirit, with your money. The Battle of the Bismarck Sea shows what your sacrifices can bring in handsome dividends in enemy destruction. Your pounds helped pound the enemy then. We must keep on pounding him. He still stands, bloated in conquered strength, astride every approach to our land except the vital link with the United States across the hazardous Pacific and with Europe across the equally perilous Indian Ocean. . . . We, with New Zealand, are the only unconquered outposts of democratic civilisation in this part of the world. Our gallant American Allies cling tenaciously

to the Solomons, but elsewhere Japanese domination holds conquered people in brutal grip.[7]

Thus John Curtin in opening the Third Liberty Loan for £100,000,000 in a national broadcast on 15th March 1943. The rhetoric was more extravagant than usual. The loan campaigns of 1942 had been couched in the sombre language of near defeat and austerity. With the shadow of defeat passing, the new loan was the occasion for a change in tone. It was the first loan for the Pacific offensive; the first for victory. It was also the largest in terms of new money that had been attempted hitherto.

In another sense, too, the Third Liberty Loan marked an important turning point. Combined with the taxation measures of the previous month, the loan represented the determination of the Government to reverse the growing dependence of war finance on central bank credit. In 1941-42 the gap between war expenditure and the sum of taxation and public loans amounted to 24 per cent; by the end of 1942 the gap had widened to over one-third and for 1942-43 as a whole was 32 per cent. Central bank credit was provided by the Commonwealth Bank by discounting Treasury bills on behalf of the Government. As the Treasury bill issues were not matched by a release of resources by the non-war sector (as was the case with taxation and public loan subscriptions), they added to actual and potential civilian demand, a demand which exceeded capacity to supply. If the "inflationary gap" had been allowed to grow unchecked as in 1942, the administrative fabric of the war economy—manpower controls, price control, rationing, commodity control and investment control—would have been in jeopardy. There were those in the Labor Party who believed in the replacement of public fixed-interest borrowing by the use of "national credit" through the Commonwealth Bank by unspecified means,[8] but fortunately the relics of the financial quackery of the nineteen thirties were scarce.

The broad objective of the new emphasis on public loans was to increase loan raising from an annual rate of around £150,000,000 in 1942 to at least £240,000,000 in 1943-44. In addition, emphasis was placed on increasing the individual number of loan subscribers. Broad participation would help swell the volume of subscriptions, restrict the consumption of the average wage-earning family, and demonstrate in a tangible form the principle of equality of sacrifice for the war effort. Thus as much emphasis was given to the number of subscriptions as to total amount subscribed. A loan was considered fully successful only if the loan closed oversubscribed on the specified date and there was evidence of extensive individual participation. In the elaborate propaganda machine that was developed, heavy publicity was given to the number of subscribers in an effort to shame non-subscribers.

Despite more or less continuous anxiety about the ultimate success of the programme (principally on the part of the Commonwealth Loans

[7] *Digest of Decisions and Announcements*, No. 55, p. 26.

[8] Notably the Labour Treasurer of Tasmania, E. Dwyer Gray, who bombarded Chifley in 1942 and 1943 with unintelligible plans for the release of "national credit".

COMMONWEALTH NEW LOANS RAISED IN AUSTRALIA, 1942-45

	Amount invited (£'000)	Amount subscribed (£'000)	Number of subscribers	Rate of interest	Maturity	Price
Feb 1942 First Liberty	35,000	12,869	244,589	2½	1945-46	100
		35,462		3½	1950-58	100
Jun 1942 Second Liberty	35,000	7,032	196,510	2½	1946-47	100
		30,341		3½	1950-58	100
Jun 1942 Special issue	3,019	3,019	—	2½	1946-47	100
Nov 1942 Austerity	77,300	22,838	454,838	2½	1946-47	100
		60,577		3½	1950-58	100
Mar 1943 Third Liberty	100,000	18,661	432,392	2½	1947-48	100
		83,144		3½	1950-59	100
Jun 1943 Special issue	235	235	—	2½	1947-48	100
Oct 1943 Fourth Liberty	125,000	24,500	567,533	2½	1947-48	100
		101,908		3½	1950-59	100
Mar 1944 First Victory	150,000	25,710	452,700	2½	1948-49	100
		124,839		3½	1950-60	100
Sep 1944 Second Victory	112,479	15,361	421,456	2½	1948-49	100
		98,576		3½	1950-60	100
Dec 1944 Debenture issue	43,018	43,018	—	1	1945-83	100
Mar 1945 Third Victory	100,000	12,342	422,714	2½	1949-50	100
		94,960		3½	1950-61	100
Jul 1945 Special issue	330	330	—	2½	1949-50	100
Sep 1945 Fourth Victory	85,000	24,102	260,271	2½	1949-50	100
		63,129		3½	1960-61	100

Note: Excludes conversion loans, overseas new and redemption loans, "over the counter sales", War Savings Certificates and Stamps, National Savings Bonds and Stamps, and advance loan subscriptions. The issue of December 1944 was for the redemption of Treasury bills.

Source: *Finance Bulletins.*

Director, C. R. F. Banfield),[9] the Government was able to lift subscriptions beyond its minimum target figure. As recorded in the tables below, dependence on Treasury bills was reduced substantially in 1943-44 and eliminated in 1944-45. Compared with the haphazard arrangements of the early war years, a regular biannual approach to the market was made in March and September or October accompanied by the standard appeal to patriotism and self-sacrifice. Greater regularity simplified the important behind-the-scenes work of the Commonwealth Loans Director in preparing broadcasts, films, leaflets, advertisements, and in arranging employer co-operation for instalment deductions from salaries and wages. Under Banfield's capable guidance, the loans propaganda machine reached its highest level of efficiency in 1943 and 1944.

Easily the most successful operation was the Fourth Liberty Loan of October 1943. On this occasion individual subscriptions exceeded half a million for the first time and large institutional contributions formed a smaller proportion than usual. In 1944, however, economic war weariness was manifest and some deception was necessary to avoid the appearance of partial failure. The First Victory Loan of March 1944, the most ambitious of the war years, had not reached its target of £150,000,000 by the official closing date and it appeared that central bank credit would be required to cover the short-fall. Curtin, in England at the time, made plain that any announcement of incomplete success would seriously embarrass his negotiating position in London and every effort should be made to close the gap. Nominal success was in fact achieved by accepting late subscriptions and by squeezing the Commonwealth Savings Bank a little harder.

The Second Victory Loan of September 1944 was even less successful. The loan was for £160,000,000 of which £40,666,000 represented conversion of an existing loan. For safety about £125,000,000 was required in new cash, the margin being necessary to redeem any portion not converted. By the time the loan closed at the end of October it was some £6,000,000 short and the usual devices failed to remove the deficiency. The Loans Director attributed the failure to complacency associated with removal of the immediate military threat, drought, the elimination of overtime in many industries, accusations of wasteful government expenditure and resentment about what he misleadingly referred to as the "25 per cent surchage" on P-A-Y-E. (In all the official records the loan is shown as being a nominal success, and the table above reproduces the official statement of the amount of new money required. In fact the minimum new requirement was £119,334,000.) In view of this experience, the two cash loans for 1945 were scaled down to £100,000,000 in March and to £85,000,000 in September. Both reached their targets, the September loan with some difficulty.

[9] C. R. F. Banfield, MBE. News Editor, Chief Sub-ed, Chief of Staff *Argus* Mbne 1935-39; Editor Dept Infmn 1939; C'wealth Loans Dir 1940-65; Asst Dir-Gen Recruiting 1950-55. B. Subiaco, WA, 9 Oct 1899.

COMPOSITION OF PUBLIC LOANS
(£'000)

	1941-42	1942-43	1943-44	1944-45
Inscribed stock and bonds	118,794	186,595	274,899	223,222
Advance loan subscriptions	2,490	19,044	—18,598	2,532
War Savings Certificates	8,791	8,976	8,575	8,813
War Savings Stamps	121	182	83	—67
National Savings Bonds and Stamps	695	925	291	—16
Citizens' National Emergency Loans	540	231	91	—215
Total public loans	131,431	215,953	265,341	234,269

Note: Minus signs indicate excess of redemptions over new subscriptions.

Source: *The Budget,* 1941-42 to 1944-45, adjusted slightly for subsequent revision of figures.

WAR EXPENDITURE AND SOURCE OF FINANCE
(£ millions)

	1941-42	1942-43	1943-44	1944-45
War expenditure — domestic	273	483	489	425
— external	47	79	56	36
Total	320	562	545	460
Financed from —				
Consolidated revenue	109	159	168	194
Public loans	131	216	265	234
Treasury bills	78	179	68	—
Treasury balances	2	8	43	32
	320	562	545	460
Domestic war expenditure as proportion of national income produced (per cent)	24.8	38.5	37.4	33.3

Source: *National Income and Expenditure 1947-48* and *The Budget 1945-1946.*

Particular political and psychological factors no doubt played a part in the determination of the volume of loan subscriptions. Evidence of this is provided by the decline in War Savings Stamps, National Savings Stamps and Citizens' National Emergency Loans (the latter being interest free loans to the Government) towards the end of the war. But the main source of finance for public loans continued to be through the banking system via an increase in deposits, and to a less extent through life insurance companies and superannuation funds. Thus the rate of growth of the supply of money—currency in the hands of the public plus bank deposits—determined the capacity of the market to absorb public loans. Growth in money supply between June 1939 and June 1942 had averaged 6.5 per cent per annum, but in 1942-43 jumped to 22.4 per cent. Thereafter the rate of increase moderated, and in 1943-44 was 17.9 per cent and in 1944-45 9.7 per cent. Most of the stimulus was provided by the

heavy Commonwealth deficit expenditure of 1942-43, so that to an important degree the reliance on central bank credit—the cause of so much anxiety at the end of 1942—provided the means for the enhanced public loans programme of 1943-44. An essential element in the process was, of course, the tight control of private consumption and investment which ensured that higher money incomes were matched by an increase in personal and corporate savings.

Exploring the matter a little further, it is useful to set the financing of public loans in the context of wartime monetary changes. As outlined earlier,[1] monetary policy centred on the system of "special accounts" whereby the "surplus investable funds" of the trading banks were placed with the Commonwealth Bank. The objective was to restrict new lending by the banks, to strengthen central bank control of the banking system, and to restrict bank profitability to the immediate pre-war level. In support of quantitative control of new lending, the Commonwealth Bank issued directives on the composition of bank advances thus supporting the work of the Capital Issues Advisory Committee. Through National Security Regulations, the Government controlled interest rates.

The financial resources made available by the special accounts system were used extensively by the Commonwealth Bank to support public loan issues, particularly in 1942-43. By contrast, trading bank holdings of bonds were restricted not only by the transfer of deposits but also by explicit direction of the Treasurer as an additional device for the control of bank profitability. For even with the long-term rate of interest at 3¼ per cent, Commonwealth bonds were an attractive form of investment in view of the shortage of alternative lending opportunities.[2] The resources of the Commonwealth Bank were augmented further (via the Note Issue Department) by the rapid increase in the volume of currency in the hands of the public. Before the war currency outside the banking system had exhibited a high degree of stability at about six per cent of total deposits, but by 1945 the proportion had risen to almost nineteen per cent. In absolute terms the notes and coins in the hands of the public increased from £40,232,000 in June 1939 to £191,602,000 in June 1945, with the greatest rise occurring between 1941 and 1944. An adequate explanation of such a major change in behaviour is beyond the scope of this volume. Briefly, an important part of it appears to have been due to anxiety—the belief that cash provided greater security, particularly in the event of evacuation. This is supported by the fact that the non-bank currency holdings increased 55 per cent in 1941-42, the highest rate of the war period. Another important factor was the preference for cash transactions by illicit traders and tax avoiders, and the accumulation of profits in hoards rather than in bank accounts to minimise the risk of detection. Yet another element was the general preference for cash

[1] Butlin, *War Economy 1939-1942*, pp. 372, 378-80, 389-90; also Giblin, *The Growth of a Central Bank*, Ch. XI.

[2] The restriction on trading bank holdings of bonds was not applied inflexibly. When bank profitability fell, as in 1944, the banks were permitted to increase their holdings by purchase from the Commonwealth Bank or by direct subscription.

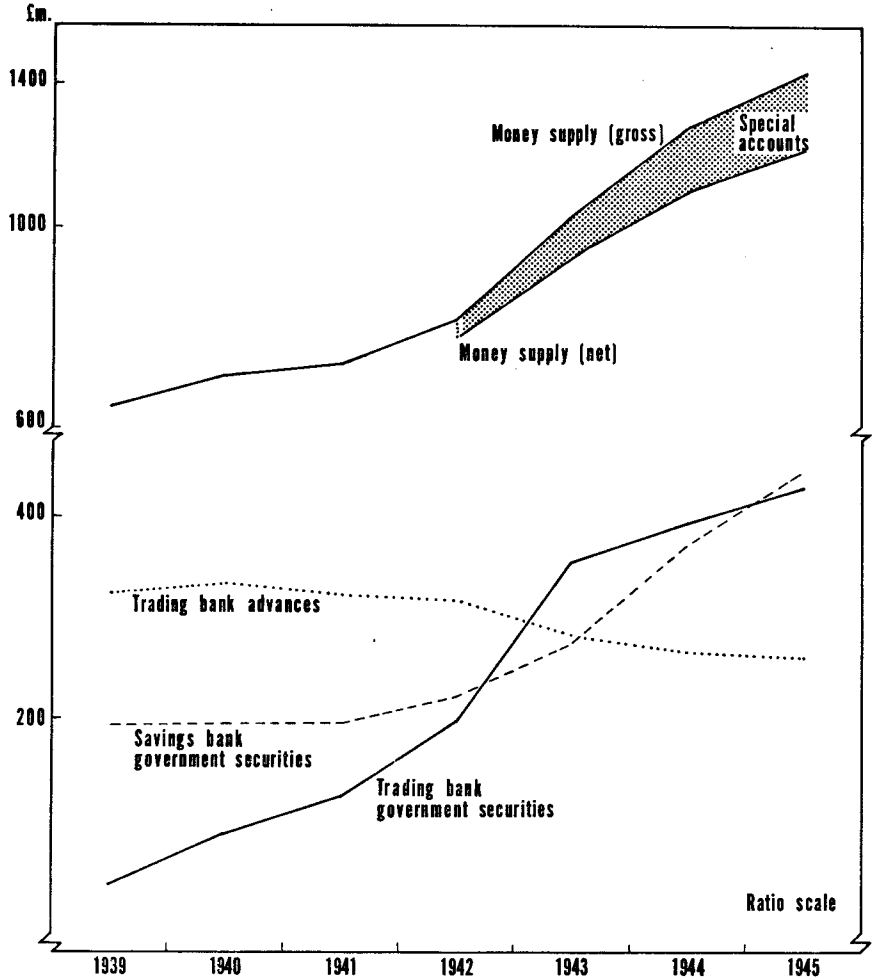
rather than credit transactions because of the serious shortage of most consumer goods. Whatever the full explanation, the significance of the change in relation to war finance was that expansion of the note issue represented a substantial interest-free loan to the Government via the Note Issue Department.

However, the most substantial underpinning of public loans was provided by the savings banks. Indeed, the rate of growth of savings deposits provided a sensitive index of the capacity of the market to absorb loans. As reflected in the aggregate balance sheet of the savings banks, holdings of government securities (excluding Treasury bills, and the issues of local and semi-governmental instrumentalities) increased by £241,000,000 between mid-1942 and mid-1945. As a proportion of deposits, holdings increased from 64.5 per cent in 1942 to 73.6 per cent in 1945; in relation to the total increase in the public debt in the period, the savings banks absorbed 29.7 per cent. The figures reflect the rapidity of savings bank deposit expansion in the last three years of war, an expansion which was much more pronounced than for trading banks. Indeed, the shift in the deposit structure that occurred was engineered by the Government through differential pressure on deposit interest rates. As will be seen, trading bank deposit rates were forced down to a level which made securities and savings deposits significantly more attractive. By August 1944, for example, the 24-month fixed deposit rate had been lowered to 1¾ per cent compared with 2 per cent for savings deposits (maximum £500) and 3¼ per cent for long-dated securities. But there was official silence on this function of savings banks, for publicity about the size of the contribution was thought likely to impair the responsiveness of the small individual subscriber.

As discussed earlier, an essential element in the war loans programme was that all issues were exclusively for war purposes. By arrangement with the States in February 1942, any essential public works for the States were financed from State consolidated revenue funds after rigorous examination and report by the Co-ordinator-General of Works, Sir Harry Brown. If revenue funds were insufficient for the programme as finally authorised by the Australian Loan Council, finance was provided by the Commonwealth by discounting Treasury bills, the State governments concerned being responsible for interest charges. As in 1941, the works proposed by the States were frequently poorly conceived in relation to defence needs and the Co-ordinator-General had no hesitation in recommending substantial reductions. Compared with £17,000,000 for 1941-42, the approved programme in 1942-43 amounted to £10,500,000 and in 1943-44 to £9,700,000. In preparation for reconstruction the programme was increased to £16,600,000 in 1944-45 but actual expenditure only reached £13,100,000.

Because of the accumulation of substantial cash balances by the States, opportunity was taken in 1944 to remove an irregularity that had emerged

MONEY SUPPLY AND SELECTED BANK ASSETS, 1939-45



Note: Money supply defined as currency plus trading and savings bank deposits. Inter-bank deposits have been excluded as far as possible except that, from 1942, Special Account deposits with the Commonwealth Bank are shown so as to depict both net and gross money supply. Savings and trading bank government securities include semi- and local government securities.

Source: S. J. Butlin, A. R. Hall and R. C. White, *Australian Banking and Monetary Statistics, 1817-1945* (1971).

in the nineteen thirties in the Financial Agreement between the Commonwealth and the States. Between 1930 and 1935 Treasury bills had been created to the value of £53,000,000 to finance State budget deficits, and since then they had been renewed regularly on the understanding that they would be redeemed when circumstances permitted. Under the terms of the Financial Agreement the Commonwealth and States combined to pay a sinking fund of 10s. per cent on new funded debt created, but for "any loan . . . raised to meet a revenue deficit" of a State the sinking fund provision was 4 per cent per annum by the State without Commonwealth contribution. However, on the outstanding Treasury bills a compromise had been arranged whereby the Commonwealth and States each contributed 5s. per cent which placed the bills on the same footing *de facto* as the funded debt.

In June 1943 Sir Claude Reading, Chairman of the Commonwealth Bank Board, proposed the redemption of £15,000,000 of the bills by the use of surplus cash balances. Reading's interest was in reducing the liquidity of State governments to prevent uncontrolled expansion of expenditure after the war, but the proposal brought to a head the question of the irregular sinking fund provision. The States resisted stoutly the suggestion that any portion of the bills should be retired permanently, claiming that all available resources would be required to meet deferred maintenance commitments. The States also rejected a suggestion, made initially by the Commonwealth Bank in January 1944, that a sinking fund of 7½ per cent per annum should be established to redeem outstanding bills by 1955. The issue dragged on inconclusively through successive Loan Council meetings. Chifley eventually accepted a pallid compromise which effectively conceded to the States the substance of the argument. The amount of immediate redemption was cut to £10,000,000, but only £7,000,000 from State funds—the remainder from the National Debt Commission. The outstanding £43,018,000 was converted into debentures carrying 1 per cent interest for which a sinking fund of 1 per cent was provided to complete redemption in thirty-nine years. Formalities were completed at the end of 1944 with uniform Commonwealth and State legislation in the form of the *Financial Agreement Acts*. The arrangement did very little to remove the excess liquidity of the States, but by sleight of hand the technical illegality was removed.

INTEREST RATES

Downward pressure on interest rates continued to have high priority during the last three years of war. Reduction was regarded as essential to restrict the growth of the Government's fixed interest commitment as far as possible, and to provide a low interest rate basis for the expansion of post-war investment. Particular attention was given to trading bank fixed deposit rates to encourage a shift in funds to public loans; and to the rates of Treasury bills and special deposit accounts so as to manipulate the profitability of the trading banks.

Although the Treasurer had expressed concern about particular rates

of interest in 1943, a general review of the level and structure of rates was delayed until July 1944. A review by the Commonwealth Bank was due at this time in the light of trading bank profit results for 1943-44, but was made more urgent by apprehension about the future loan programme following the incomplete success of the First Victory Loan.

Accordingly, interest rates on trading bank deposits and advances, large savings deposits, loans to local authorities, loans by building societies, and special accounts with the Commonwealth Bank were reduced as from 9th August 1944.[3] The most important adjustments were in relation to fixed deposits, the general argument being that

> funds available for investment, particularly long-term investment, should be placed in Government loans. To implement this policy rates of interest on Bank fixed deposits should be those appropriate to short-term investment.[4]

Rates on 12- and 24-month deposits were reduced by one-quarter of one per cent to 1¼ and 1¾ per cent respectively; on 3 and 6 month deposits the reduction was one-half of one per cent to ½ and ¾ per cent respectively. The Commonwealth Bank would have preferred to have eliminated interest on 3-month deposits because of the volume of "temporarily idle funds of business institutions", but a nominal rate was recommended so as not to disturb the existing structure of time deposit options. No change was made in the savings deposit rate of 2 per cent for amounts up to £500,[5] but on deposits of between £501 and £1,000 a reduction of one-quarter of one per cent to 1¼ per cent was made to encourage a movement of funds to loans and to remove "any suggestion that in fixing rates of interest the Commonwealth Bank is showing undue preference to Savings Banks".[6] However, it is unlikely that a large volume of deposits was diverted to loans by this means because of the ease with which accounts could be split.

Lending rates were lowered mainly by reference to the profitability of the trading banks. The Commonwealth Bank did not recommend a reduction in interest on overdrafts because the estimated profit margin of 12s. per cent was regarded as sufficiently low, but the Treasury insisted that a cut of one-quarter of one per cent to 4¾ per cent be made because of the savings that would flow from the reductions in deposit rates. Adjustments of the same amount were also made to rates on loans by building societies and by insurance companies, while on loans to government-guaranteed local authorities the rate was lowered one-eighth of one per cent to 3½ per cent.[7] As a further adjustment to trading bank profitability, interest allowed on special accounts was lowered from 15s. to 12s. 6d. per cent.

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[3] Proclamation 4274, 9 Aug 1944.

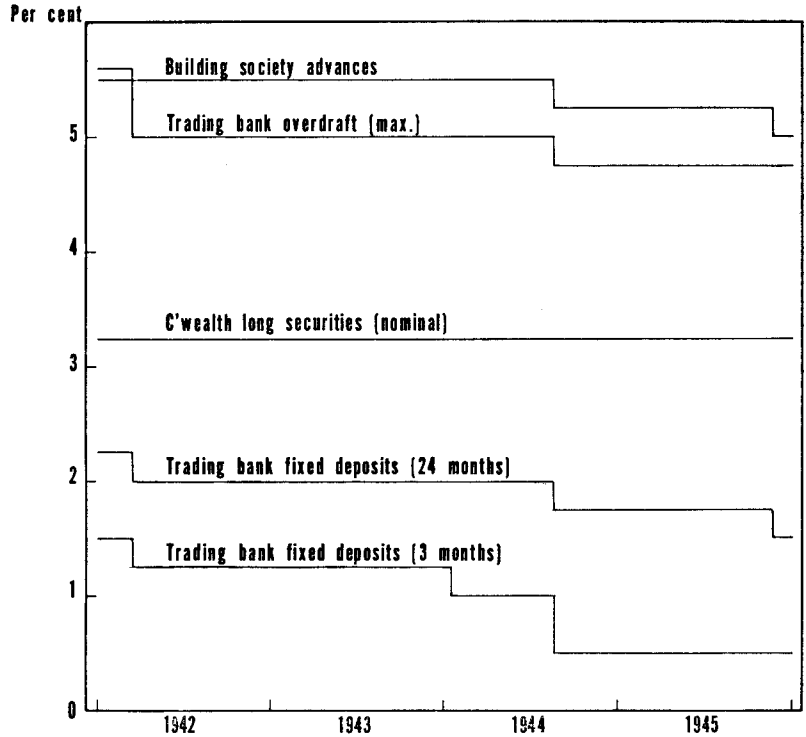
[4] Commonwealth Bank memorandum on interest rates, 5 Jul 1944.

[5] The 2 per cent rate applied to the Commonwealth Savings Bank and the State Savings Bank of Victoria. Other savings banks paid 2¼ per cent.

[6] No interest was paid on deposits in excess of £1,000 (friendly societies excepted). The interest-earning limit is shown incorrectly as £1,300 for the Commonwealth Savings Bank from 1942 to 1945 in Butlin, Hall and White, *Australian Banking and Monetary Statistics 1817-1945*, p. 535. The limit was reduced to £1,000 by Proclamation 1408, 14 Mar 1942.

[7] On non-guaranteed loans to local authorities, the rate was lowered one-half of one per cent to 3 5/8 per cent. The Treasurer believed that all loans to local authorities were in the same risk category and that the same rate should apply irrespective of the availability of a guarantee, but the Commonwealth Bank's view that a small margin should be retained was accepted.

INTEREST RATES, 1942-45



Although this revision was the last general reduction of the war period,[8] cheap money continued to be a fundamental plank in post-war full employment policy. Chifley as Treasurer and then as Prime Minister maintained the maximum possible pressure on interest rates. Formal control of bank interest rates was transferred to the Commonwealth Bank through the banking legislation of 1945, while non-bank rates were controlled for as long as possible under National Security Regulations. There was virtually no discussion at the time about the long-term effects of artificially cheap money: Chifley rejected instinctively the proposition that interest rates could be used as a flexible instrument of monetary policy. In 1943, when it was suggested that the progressive lowering of rates might lead to post-war over-investment, the Treasurer dismissed the notion scornfully. For those whose minds were furnished by the experience of the nineteen thirties, the notion of over-investment in peacetime was a totally foreign concept. In any case, it was preferable to err on the side of over-full employment than to create, unnecessarily, a pool of unemployed.

[8] A few minor reductions were made at other times, notably the reduction in the Treasury bill rate from 1½ to 1¼ per cent on 1 May 1943, and then to 1 per cent on 1 Mar 1945.

Despite the restricted nature of the argument in favour of cheap money after the war, the value of the wartime policy should not be overlooked. The central point is that the creation of a massive fixed interest commitment was avoided. In the six years of war the total public debt of the Commonwealth and States (internal and external) doubled, but this was accompanied by a marginal increase only in the "burden" of fixed interest commitments. As a proportion of gross national product, interest payments increased from 5.4 per cent in 1938-39 to 5.6 per cent in 1944-45.

AVERAGE RATE OF INTEREST ON PUBLIC DEBT PAYABLE IN AUSTRALIA
(per cent per annum)

	On War (1939-45) Debt	Total
1939-40	3.38	3.62
1940-41	3.15	3.55
1941-42	2.73	3.25
1942-43	2.51	2.99
1943-44	2.44	2.83
1944-45	2.45	2.75

Source: *Finance Bulletins*

Thus, a far greater degree of flexibility was available for post-war budgets than would otherwise have been the case. A large redistribution of income to the wealthier groups was avoided, and the Commonwealth was able to use its degree of freedom to increase the value and range of social welfare payments.

INVESTMENT CONTROL

The diversion of real resources to the war effort by means of control over private investment had achieved its primary purpose by mid-1942. So effectively and stringently was capital issues control administered that during the last three years of war gross private investment in real terms was cut to about twenty per cent of the 1938-39 figure. This meant that insufficient new investment was taking place to maintain the country's stock of private capital intact. Net disinvestment occurred most strikingly in housing, motor vehicles and in primary industry.

For the most of 1943 and 1944 the task of the Treasury with the assistance of the Capital Issues Advisory Committee was to keep the door firmly closed on any new capital raising unrelated to the direct war effort. Few loopholes in the regulations survived the purge of 1942 and those that did were comparatively minor. One means of evasion that did emerge was the practice of issuing certificates of title in the name of syndicates for the purpose of raising capital. Such unincorporated bodies were formally outside the regulations and small amounts of capital were raised privately by this means by a mineral sands explorer and a few small manufacturers before the loophole was closed in March 1945.[9]

[9] Statutory Rules 1945, No. 26, 6 Mar.

Apart from the growing problem of land sales control, the minor nature of this incident illustrated the extent to which investment control had become a matter of routine.

Of growing importance in 1944 was the question of partial relaxation of capital issues control to enable manufacturers to reconvert their factories in preparation for reconstruction. With the decline in the volume of munitions contracts, some manufacturing capacity was rendered idle and for a moderate capital outlay could be prepared for the switch to civilian production. The issue was raised in principle by General Motors-Holden's in February 1944. In this instance the firm sought endorsement of a general manufacturing programme including production of a pilot model, but there were many other examples at about the same time of munitions contractors seeking clarification of post-war industrial policy and permission to engage actively in post-war planning.

The issue was one mainly for the Secondary Industries Commission[1] and the new manufactures section of the Department of War Organisation of Industry, but Capital Issues was affected directly by the outcome. Lengthy examination followed, by War Cabinet, a Cabinet sub-committee, and Full Cabinet[2] which resulted in a cautious relaxation of control and the adoption of elaborate new rules for the issue of special approvals. In May 1944 the Full Cabinet accepted the point that a limited amount of capital expenditure was necessary to prepare for reconstruction, but only when the planning had been prepared or sponsored by the Government for the production of goods essential for post-war reconstruction and only when the resources involved could not be used by the war effort. The intention of the first rider was to ensure that Capital Issues administered the relaxation in a way which conformed with the policy of post-war industrial expansion. For this purpose applications were to be submitted to the new manufactures section of War Organisation of Industry and to the Secondary Industries Commission. The Production Executive was to adjudicate in the event of a difference of opinion. The machinery was designed to allow special cases to be considered, but no general diversion to civilian production was to be permitted at this stage.

Apart from the administrative rigmarole,[3] the main difficulty with the arrangement was that the Secondary Industries Commission could not provide any clear idea about the preferred structure of post-war industrial growth. In 1944 it was reasonable that the Commission should hesitate to draw up a definitive blueprint, but as late as May 1945 the best that could be provided in response to an urgent request for clarification of policy was that "the motor vehicle, wool, cotton and rayon industries afford the best prospects of appreciable expansion".[4] The emergence of

[1] Created in Oct 1943 under the umbrella of the Department of Post-War Reconstruction.

[2] War Cabinet Agendum 150/1944; Full Cabinet Agendum 660, 24 May 1944.

[3] Capital Issues complained, with justification, that reference to War Organisation of Industry involved unnecessary duplication, for the task of the new manufactures section was to screen applications in the context of wartime requirements and not in relation to post-war planning.

[4] J. K. Jensen to G. M. Shain, 11 May 1945. Shain, Deputy Governor of the Commonwealth Bank, replaced H. McConaghy as Chairman of the Capital Issues Advisory Committee on 15 Apr 1943.

industrial policy is considered in a later chapter, but in brief the approach of the Commission was to consider each firm or industry individually in relation to broad criteria about the chances of success; as reported to Capital Issues, the Commission was mindful of the fact "that McKay-Massey Harris started in a shed in the yard". Thus, the gradual relaxation initiated in mid-1944 was administered largely on an intuitive basis and without firm commitment to any systematic industrial plan. Fortunately more detailed guidance was given in September 1945 by the Director-General of Post-War Reconstruction who supplied an approximate priorities list using material gathered for preparation of the Full Employment White Paper. The list accorded highest priority to the provision of capital for the manufacture of building materials, durable consumer goods, transport equipment, textiles, and all types of goods for export. But the Government had rejected quantification in drawing up the White Paper, and Post-War Reconstruction was not prepared to go beyond broad indicative planning in the allocation of capital. This was probably inevitable in view of the lack of detailed information about capital requirements and uncertainty about the future of capital issues regulations.

Relaxation was cautious, too, in the sensitive area of building society borrowing and lending. In April 1944 restriction on the formation of new terminating societies was relaxed, but on condition that all subscriptions were used for advance subscriptions to Commonwealth loans; that no borrowing was to be undertaken until the post-war building position was clarified; and that, in conformity with general rules, any loan to a member was for the purchase of a newly erected house and at the controlled rate of interest. Capital Issues disapproved of the relaxation as premature because of the diversion to societies of funds which could be used after the war to compete for materials with the Government housing programme. However, the Treasurer accepted the need of small savers to accumulate funds gradually in anticipation of eventual house purchase. Applications for the formation of permanent societies were, in 1944, rejected on the grounds that there were sufficient institutions of this type in existence and that heavier borrowing would be involved than in the case of terminating societies.

The differential treatment of permanent societies produced a barrage of protest from the Association of Co-operative Building Societies in the latter part of 1944. Some of the claims were extravagant, but others made good sense. Although there had been no significant relaxation of the formal control of new building,[5] War Organisation of Industry had increased gradually the volume of permits to build. This intensified the pressure on building societies to provide finance, but they were unable to

[5] By Statutory Rules 1944, No. 85, 31 May, building operations regulations were issued which restricted the virtual blanket on new private building without permit including alterations and additions. The old regulations applied on building *construction* to a value in excess of £25, and there had been some evasion by means of repetition of small improvements. The new regulations continued the £25 exemption for essential maintenance work *in any one year* in an effort to stamp out evasion by repetition, and required a permit to be obtained for renovations and repair, painting, decorative work, and the installation of any fixtures to a value in excess of £25. The limit in the case of primary producers, business buildings and educational and religious establishments was £100.

CAPITAL ISSUES: APPROVALS AND REFUSALS, 1943-45
(£'000)

	4 Jul to 9 Sep 1943	10 Sep 1943 to 8 Jan 1944	9 Jan to 8 Apr 1944	9 Apr to 8 Jul 1944	9 Jul to 14 Oct 1944	15 Oct 1944 to 13 Jan 1945	14 Jan to 14 Apr 1945	15 Apr to 14 Jul 1945	15 Jul to 13 Oct 1945	14 Oct 1945 to 12 Jan 1946
Approvals —										
Manufacturing:										
New Money	360	214	435	945	987	462	393	428	1,253	1,145
Other Issues	131	207	298	244	129	106	326	140	833	721
Sub-total	491	421	733	1,189	1,116	568	719	568	2,086	1,866
Primary Industry:										
New Money	5	14	1	—	4	43	7	17	2	—
Other Issues	—	—	4	53	—	24	2	—	—	20
Sub-total	5	14	5	53	4	66	9	17	2	20
Mining:										
New Money	2	74	14	130	59	93	24	32	50	—
Other Issues	31	8	—	202	2	1	17	1	—	—
Sub-total	33	82	14	331	60	94	41	33	50	—
Wholesale and Retail:										
New Money	3	—	6	19	39	6	82	249	433	82
Other Issues	1	4	6	18	18	3	16	509	502	94
Sub-total	4	4	12	37	57	9	98	758	935	176
Miscellaneous:										
New Money	72	38	373	117	774	397	410	491	674	2,049
Other Issues	52	36	377	133	156	390	208	106	631	315
Sub-total	124	74	750	250	930	787	617	596	1,304	2,364
Totals:										
New Money	442	340	829	1,211	1,863	1,001	917	1,217	2,411	3,276
Other Issues	214	254	685	649	305	523	568	755	1,966	1,150
Grand Total	656	595	1,514	1,860	2,168	1,523	1,485	1,972	4,377	4,426
Refusals—										
Total	222	223	808	161	529	269	83	95	350	47

Note: Statistical discrepancy due to rounding. Excluded from approvals are mortgages and charges as the amounts involved after 1941 were negligible. Statistics of refusals represent cases for which consent was refused by the Commonwealth Treasury without submission to the Capital Issues Advisory Committee. Refusals by the Committee were not compiled.

Source: Papers of the Capital Issues Advisory Committee.

do so under existing rules of Capital Issues. However, those people with forty per cent of the purchase price were able to secure a loan from a bank or an insurance company; those who could only raise a minimum deposit, ten per cent, were dependent on building societies which were under existing rules unable to borrow. As the association argued fairly, the Government was penalising the small man with limited means. With some reluctance the Treasurer conceded the point, and in February 1945 the borrowing limitations were eased. Terminating societies were permitted to borrow over a period £100,000 and permanent societies £200,000. As before, lending was restricted to new houses so as to concentrate available finance in the direction of new building, and only on the basis of permits issued by War Organisation of Industry.[6]

The last of the wartime changes in control over borrowing was an increase from £500 to £1,500 in July 1945 in the amount that could be borrowed in a period of twelve months without the Treasurer's approval,[7] a change which had the effect of freeing from these regulations the bulk of intending house purchasers of modest means. The main impediment remained, however: the difficulty of finding a house—any house—and obtaining a permit to buy.

Compared with the trouble-free regulation of new capital issues, administration of land sales control was a nightmare. As outlined earlier, the intention of the control was to prevent speculation and limit the concentration of wealth in the form of real estate. Prices were pegged to within ten per cent of those values ruling on 10th February 1942, and a permit was issued only after an approved valuer had certified that the proposed transaction fell within this price limit. In addition to control of price, speculators were discouraged by requiring that settlement be in cash.

By mid-1943 it was clear that land price control had not been effective, and that by various means the regulations were being evaded comprehensively. As time passed valuers found it increasingly difficult to estimate true February 1942 values, and pressure increased on them to produce an acceptable figure. A partial solution would perhaps have been found by exclusive use of government valuers, but in practice the skilled manpower did not exist in sufficient quantities. In any case control was circumvented by settlement of an additional amount outside the contract price. Nevertheless, Chifley rejected consistently all proposals for a relaxation of the February 1942 peg despite intensive pressure by Real Estate Institutes who complained bitterly about the decline in the volume of transactions. For the Treasurer the matter had become one of principle. Any relaxation would have played into the hands of speculators and encouraged further upward pressure on prices. The concentration of land ownership had been for many years a sore point with the Labor Party, and there were faint echoes of Henry George in Chifley's attitude. Further,

[6] The remaining borrowing and lending restrictions were reduced progressively until they were removed completely in 1947.

[7] Statutory Rules 1945, No. 107, 4 Jul.

if values of both urban and rural land were not to be inflated artificially leading to excessive indebtedness in the post-war period (and a threat to employment), firm price control had to be retained. In short, the Government was prepared to accept widespread evasion of land sales control as the cost of keeping values, however nominal, as low as possible.

While little could be done with the manpower available to improve the effectiveness of price control, there were ways of clamping down on speculative land purchases. With the growth in the volume of money in 1943 the stipulation that investment purchases had to be for cash was less of a limiting factor than before. An examination by W. C. Balmford, Commonwealth Actuary and administrator of land sales control, revealed that the pressure to acquire real estate for investment purposes had increased sharply in 1943 and that many purchasers were not listed as large contributors to Commonwealth war loans. In November 1943, therefore, the Treasurer imposed a supplementary test before granting approval for the purchase of a property for investment. The test was that investors should have contributed to war loans since the beginning of the war according to the following scale:

Real estate acquired	War loan subscription
£	£
500	125
1,000	200
2,000	500
4,000	1,700
6,000	3,700
8,000	6,500
10,000	10,000

The test did not apply to the purchase of a home for owner-occupation, or to the acquisition of land or a building in connection with a farm or business. Purchases of under £500 were exempt.

The test was not made part of the regulations, and simply applied in connection with the Treasurer's discretion in granting or withholding approval. To ensure that bonds were not sold subsequently, the securities had to be lodged with a bank and could only be withdrawn on the approval of the Treasurer. Application of the test raised an immediate storm of protest by large investors and Real Estate Institutes who objected not only in principle but also to the steep increment of war loan holding required. A High Court challenge was issued in 1944, and in April 1945 the Court held that the test was *ultra vires* the regulations and the *National Security Act* on the ground that it was not sufficiently related to the defence power.[8] The regulations might have been amended to incorporate the test but the Government let the matter slide, for there was a high risk that the Court would have thrown out the regulations dealing with land sales control *in toto*.

The war loan test, while in operation, appears to have had a slight effect only on the volume of transactions. Official figures of the value

[8] Shrimpton *v* The Commonwealth, *Commonwealth Law Reports* Vol. 69 (1945), p. 613.

of transactions for the second half of the war are misleading because they do not record extra-contract payments. The number of individual transactions provides, therefore, a more realistic guide to the level of activity. Evasion was so common that ways around the regulations became institutionalised. One instance more elaborate than most which came to the notice of Capital Issues was the case of a grazier who had been granted permission to purchase further land provided he financed the transaction from his own resources. As he was unable to comply with the spirit of the condition, he sold all his stock, bought the additional land for cash, and then applied for and was granted an overdraft by his bank to stock both properties. Banks were at liberty to lend for this purpose, but not for the acquisition of additional land without Treasury approval.

TRANSFER OF REAL ESTATE

	Number	Value (£'000)
1939-40	120,598	82,223
1940-41	123,749	86,978
1941-42	112,736	76,610
1942-43	80,107	53,107
1943-44	101,654	61,067
1944-45	129,624	76,095

Nevertheless, land prices were held at a lower level during the war and the early post-war years than if a free market had been permitted. Indeed, the continued post-war control of values emerged as a major issue within official circles in 1944 with particular emphasis on the avoidance of over-capitalisation of rural land values. Primary commodity prices were expected to reach very high levels in the early years after the war, and then fall heavily (as in the nineteen twenties). In the hope that permanent control could be arranged between the Commonwealth and the States, there was no significant relaxation during the war period. In September 1944 the condition limiting the purchase of a building block to acceptable residential areas was withdrawn as a result of legitimate complaint about the restriction, and in July 1945 the Minister responsible for War Service Land Settlement was authorised to exclude from private purchase country land suitable for settlement by ex-servicemen.[9] But these were machinery adjustments; the substance of land sales control remained intact.[1]

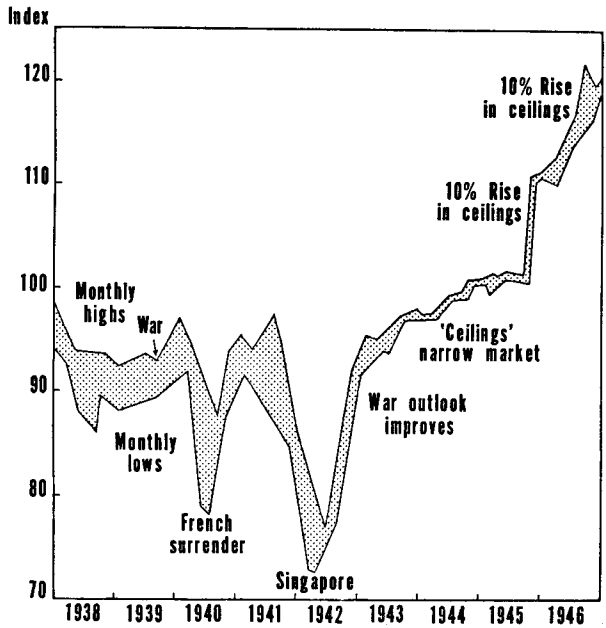
In his administration of stock exchange prices, Chifley persisted with his view that speculation in shares was the lesser of two evils and was prepared to be a little more flexible so long as the Associated Stock Exchanges played the rules of the game. As recounted earlier, share

[9] Statutory Rules 1945, No. 116, 18 Jul.

[1] Other minor amendments brought boarding houses within control primarily to prevent refugees from being exploited (Mar 1944), and freed public trustees and curators of deceased estates from their legal liability of obtaining the highest possible price by public auction (Feb 1945).

prices were permitted to fluctuate within a maximum and minimum band of ten per cent. Upward adjustment of the maximum was permitted at irregular intervals so long as the maximum price did not exceed the "ceiling price" which was set at the average price for September 1941 (the wartime peak). By mid-1943 most maximum prices had been moved up to the ceiling so that no further upward adjustment could take place. The result was that there was a long queue of buyers and very few sellers of the more favoured shares, and fluctuations in the market as a whole diminished appreciably (see diagram). By the end of 1943 the shortage of scrip (accentuated by capital issues control) was so acute that shares in less favoured companies had been pushed to their ceilings.

MELBOURNE INDEX OF INDUSTRIAL STOCK PRICES, 1938-46



Note: Average maximum and minimum prices for 30 representative industrial stocks quoted on the Melbourne stock exchange. Index July 1937 = 100.
Source: *Herald* (Melbourne) 4 Jan. 1947.

The situation had created many anomalies in the prices of individual shares, but most of these had to be accepted. However, the Treasurer was prepared to listen to suggestions for improvements but not abandonment of the principle of maximum and ceiling prices. In July 1943 all fixed-interest securities were released from control as this type of security was subject to very moderate price variations. On the initiative of the Associated Stock Exchanges a proposal was examined for relating ceiling prices to asset backing, but it was soon found that this method would redistribute rather than remove anomalies. Eventually, in March 1944,

Chifley agreed to the lifting of ceiling prices in those instances where it could be shown that "hardship" would result from the resale of shares by people who had purchased shortly before the war. Initially, only seven stocks were involved and the prices of these were allowed to rise to the average of the three years ended 30th September 1939, but the use of the 1936-39 price standard was widened gradually so long as the increase was limited to 10 per cent or 10s. per share (whichever the smaller). By this means adjustments were permitted for a larger group of stocks in October 1944 and again in February 1945. In September 1945 a general 10 per cent rise was permitted and then again in 1946 (although on this occasion two separate adjustments of 5 per cent each were made).[2]

The purpose of share price control was primarily political: to demonstrate to the electorate in general, and the labour movement in particular, that all sections of the community were sharing in a reduction in their freedom of action. However questionable the benefits to the war economy, it would have been impossible for the Treasurer to argue before Caucus that the stock exchanges should be singled out for preferred treatment. For the same reason control was continued after the defeat of Japan, after the time when there was any real justification for limiting short-term fluctuations in prices. The stock market was eventually released from the regulations with the lapse of the *National Security Act* on 31st December 1946.

Throughout its history the work of the Capital Issues Advisory Committee was flavoured by a highly developed sense of paternalism and nationalism and deep concern about the imperfections of the Australian capital market. More than most bodies of similar type it went beyond its routine advisory function to support what were, for the time, unconventional solutions for particular problems and comprehensive reform of the free enterprise market for capital. These proposals came to nothing because of the constitutional limitation and Treasury indifference, but a few examples will illustrate this aspect of the Committee's wartime work.

The limitation on the issue of new equity capital and on borrowing conferred some advantages on those (usually large) companies who were able to extend their scale of operations by means of cash purchase of smaller firms. Except for price control of those deals involving real estate and the application, when available, of the war loan test, cash transactions of this type were outside the scope of Capital Issues. Two instances were of particular concern to the Committee in 1944: the purchase by Carlton and United Breweries of hotels in Melbourne, and the extension of ownership of cinemas by Hoyts Ltd. To the Committee the former represented an undesirable growth of monopolisation; the latter was "from the national point of view . . . much more serious since it enabled the Americans to extend their grip over the cinema industry in

[2] The only significant extension of the regulations in the latter part of the war occurred in June 1944 when sales of shares in unlisted private companies were subjected to the same maximum and ceiling prices as listed shares, and also the condition that shares had to be held for at least five months before resale. Statutory Rules 1944, No. 99, 29 Jun.

Australia".[3] In each case the purchases involved the transfer of shares in private companies or partnerships, and the Committee recommended additional regulations to prevent the sale or purchase of unlisted shares if the result was a decrease or increase of ten per cent in the holding of a particular individual or firm (the ten per cent to be cumulative). The proposal was a first wild swing at a complex problem of monopoly growth and overseas control; the only immediate outcome was that unlisted shares were made subject to price control in June 1944.

The Committee returned to the theme in a more comprehensive and systematic way shortly afterwards in connection with the post-war future of capital issues control. It argued vigorously and convincingly that continuation of tight control was an essential condition for the smooth transition from war to peace, for in this period the demand for capital would greatly exceed supply. Control would be essential not only to prevent rapid inflation of capital costs, but also to influence the direction of investment. Beyond the transitional period the Committee believed that strong Federal control of security markets was essential, and proposed (subject to constitutional amendment) a package of surprisingly modern complexion: (1) a Federal companies act which would confer powers and duties along the lines of the United States Securities and Exchange Commission, including the regulation of private investment, the formation of companies, the issue of shares and debentures of all types, trading in securities, the issue of prospectuses and underwriting agreements, borrowing transactions and the rate of interest; (2) the unification of all existing company legislation; and (3) the compulsory registration of accountants to establish minimum qualifications and standards in the accounting and auditing profession.[4] Control of companies was included in the Powers Referendum of August 1944, but any chance of introducing comprehensive regulation of investment and securities was lost with the rejection of the "Yes" case. However, the Committee's strong support for the preservation of regulation was a factor in the continuation of control until 1950.

EXTERNAL FINANCE AND TRADE

Financing of the Australian war effort was achieved without resort to the issue of a public loan abroad. The British Government had provided a temporary loan of £12,000,000 sterling in 1940 to help finance defence imports, but this was repaid at the end of 1943. Indeed, beginning in 1944 Australia was able to repatriate and redeem a portion of its large overseas debt and at about the same time became a net creditor to the United Kingdom through the rapid accumulation of sterling balances. At the beginning of the war government policy had been to restrict dependence on external loans as far as possible and avoid the crippling accumulation of fixed-interest obligations that accompanied the war of 1914-18, a policy which the Curtin Government endorsed with strong ideological

[3] Minutes of 28th meeting of the Capital Issues Advisory Committee, 30 Mar 1944.
[4] Minutes of the 32nd meeting, 20-21 Jul 1944.

commitment. However, the extent of the achievement to the point of a reduction of net overseas indebtedness exceeded all expectations, and was due primarily to the rapid development of manufacturing capacity for the production of military equipment and to the inflow of Lend-Lease.

The path to debt repatriation was by no means straight and even. The Government was fortunate that a London loan did not fall due for conversion early in 1942, the time of greatest anxiety about the level of external liquidity. The first loan to fall due after Pearl Harbour was £16,451,000 sterling in December 1942. Under the influence of Allied government expenditure, London funds had recovered well since the trough (measured on a quarterly basis) of March 1942; but, in the eyes of the Commonwealth Bank, there was still an uncomfortably narrow margin above those balances held as statutory backing for the note issue. There was therefore no question of repatriating any portion of the loan. The conversion was arranged, as in 1941, without the usual underwriting agreement as required by the United Kingdom Government. Any unconverted portion was to be covered by the Commonwealth Bank in London. An advance to the Commonwealth Bank by the Bank of England to an amount equal to the unconverted portion was made to enable the former to take up stock without drawing on its own funds. The stock could then be sold in the open market with any realisation loss to be met by the Australian Government. The loan was handled in this way without complication, and the converted portion represented fifty per cent of the amount outstanding. Sale of unconverted stock went slowly at first but was completed in 1944 at a profit.

Sterling balances rose gradually in 1943 and the British Government's loan was repaid, but the improvement was not sufficiently pronounced to persuade the Commonwealth Bank—always pessimistic about the future of London funds—that systematic redemption of overseas debt was within sight. The nettle was grasped by the High Commissioner in London, S. M. Bruce, in December 1943 in connection with the conversion of a small Tasmanian loan. Bruce explained that London expected the loan to be redeemed in view of the recent repayment of the British Government loan and the rise in London funds, and emphasised that a conversion offer for such a small amount—£4,491,000 sterling—would react unfavourably on Australia's credit standing. The advice was accepted and the Commonwealth Bank paid off the loan. Internal funded stock was issued to replace it. The significance of the event is that it was the first in a series of similar operations which extended well into the post-war period and was thus a significant turning point in the history of Australian public finance. At the time, however, there was no suggestion that it carried policy implications for the future.

Similarly, the loan which fell due in October 1944 was repatriated only after pressure from the Bank of England and advice from the High Commissioner about the post-war future of sterling balances. Treasury officials were anxious to treat the loan in the same manner as the conversion of December 1942 on the dubious argument that the Sinking Fund

would be required to support a tight domestic loan market in 1944-45 and that nothing could be spared from it to redeem overseas loans. The Bank of England argued validly that the shortage of Sinking Fund would not preclude redemption by use of Commonwealth Bank funds. Further, as explained by Bruce, there was considerable doubt about the availability of sterling balances after the war. The United Kingdom had accumulated enormous short-term debts mainly as a result of British war expenditure in India and Egypt and she could not possibly permit unrestricted access to these funds after the war. Although Australia was not a large creditor, all sterling area countries would have to be treated in a similar manner. Thus, London funds which had more than doubled in 1943-44 might as well be used immediately to repatriate debt and contribute in a small way to the scaling down of potentially unusable balances. This well-informed advice was accepted, but with regrets. Another small loan was repatriated in January 1945, on this occasion without argument.

COMMONWEALTH LOANS FOR CONVERSION AND REDEMPTION IN LONDON, 1942-45

	Old Loan		New Loans				
	Amount £stg '000	Rate of Interest per cent	Amount raised in: London £stg'000	Australia £A'000	Rate of Interest per cent	Price of Issue £	Maturity
Dec 1942	16,451	2¾	16,451	—	3	98	1944-46
Jan 1944	4,491	3½	—	5,631	2½	100	1947-48
Sep 1944	6,131	3	—	7,687	2½	100	1948-49
Jan 1945	3,959	3½	—	4,963	3¼	100	1950-60
Jul 1945	94,312	5	60,000	43,017	3¼	100	1965-69 1950-61
Dec 1945	14,055	5	14,055	—	3	98	1958-60

Note: The 1965-69 maturity date for the loan of July 1945 applied to the portion raised in London, the 1950-61 date to the portion redeemed by the Commonwealth Bank.

Source: *Commonwealth Year Book* No. 37, p. 643.

A more positive approach was adopted in 1945, partly because of the scale of the proposed operation and partly because of the realisation in Canberra that a substantial proportion of London funds would be frozen after the war. A total of £108,367,000 sterling Commonwealth and State securities became callable optionally for the first time in 1945. The Treasury was anxious to convert as much as possible to take advantage of the lower rate of interest that was available. Negotiations which spread over several months centred on the number of approaches to the market that would be made and the amount of the proposed repatriation. After initial discussion about considering the possibility of making four separate issues spaced over a year, it was agreed that the loan would be dealt with in two unequal steps: a first approach in May 1945 for £94,312,000 sterling and a second in October for £14,055,000 sterling. The first would

be supported by an announcement that the Commonwealth would pay off £34,312,000 sterling and that conversion acceptances would be limited to £60,000,000 sterling. Expectations were that applications would not exceed £50,000,000 sterling despite the show of strength in announcing such a large repatriation, and that Commonwealth Bank resources would be heavily committed. But the shrewd handling of the market approach by the High Commissioner and the Bank of England paid dividends. Applications finally totalled £57,201,000 sterling which was regarded as a highly successful result. As before, the small amount that was taken by the Commonwealth Bank was sold without difficulty. The second part of the operation was also managed comfortably, although on this occasion there was no attempt to repatriate.

The combination of debt repatriation, reduction in interest rates, and inflation, transformed Australia's position as a debtor nation on government account. In 1938-39 public fixed-interest commitments abroad represented 3.2 per cent of net national income and absorbed 15.6 per cent of balance of payments credits on current account. By 1945-46 the two proportions had been reduced to 1.6 per cent and 6.0 per cent respectively. The proportions were to fall further as the Government continued to take advantage of a healthy balance of payments position and cheap money in Britain after the war, but the wartime changes contributed most to the solution of the problem of financing external fixed-interest payments that had plagued the Australian economy in the nineteen thirties. In absolute terms, total overseas indebtedness was reduced by £78,965,000 to £650,564,000 in the seven years to 1945-46, a fall of 12.3 per cent. In the same period the average rate of interest payable on the debt fell from 4.025 per cent to 3.604 per cent.

Concern about the liquidity of Australia's sterling balances after the war prompted intensive negotiations with the United Kingdom authorities from the end of 1943. The rapid accumulation of foreign exchange in the last two years of the war (as shown in the table) was in the eyes of the Commonwealth Bank and the Treasury no more than was consistent with Australia's post-war requirements and obligations. The general expectation was that imports would rise steeply as soon as trade controls were relaxed. Export prices were also predicted to rise initially, but there was gloom about long-term prospects for the terms of trade. Further, it was believed that the country would require a generous allocation of United States currency for the importation of capital equipment, particularly in relation to the development of the motor vehicle industry. An additional obligation would be Australia's subscription (partly in gold) to the proposed International Monetary Fund.

The Commonwealth Bank's initial reaction at the end of 1943 was to propose the acquisition of a quantity of gold of its own in a modest attempt to diversify its portfolio of international reserves. Except for a trivial amount, Australia's stock of monetary gold had been sold in the early nineteen thirties to meet overseas obligations and there had been no

serious subsequent attempt to re-establish it. By agreement with the Bank of England, all wartime production was sold to the United Kingdom and any variation in the procedure would require delicate handling in London. The Bank's objective was to acquire a stock of £10,000,000 by the end of 1945 by retention of a proportion of local production.[5] The Bank of England agreed eventually on condition that the amount of the accumulation was deducted from the £40,000,000 sterling guarantee of Australian reserves (a condition which was a mere gesture in 1944). By mid-1945 the bank's target had been exceeded, but the accumulation was still far too small to have any real impact on the problem.

INTERNATIONAL RESERVES OF GOLD AND FOREIGN EXCHANGE, ANNUAL 1939-45
(£A million)

End of June	(1) Official gold	(2) Foreign exchange	(3) Total reserves (1 + 2)	(4) Statutory Note Issue Reserve	(5) "Available" reserves (3 — 4)
1939	1.8	58.9	60.7	11.9	48.8
1940	3.8	69.7	73.5	15.4	58.1
1941	2.9	93.3	95.2	17.0	78.2
1942	2.2	70.8	73.0	25.7	47.3
1943	2.1	87.5	89.6	35.0	54.6
1944	4.9	180.5	185.4	47.7	137.7
1945	12.6	199.1	211.7	46.6	165.1

Source: Butlin, Hall and White, *Australian Banking and Monetary Statistics,* pp. 451, 470; *The Australian Balance of Payments, 1928-29 to 1948-49* (1950), Table XV.

Australia was not successful, however, in persuading the United Kingdom to make any commitment about the much more important question—the post-war liquidity of sterling balances. The matter was taken up vigorously in London by the High Commissioner in 1944, particularly after the mid-year international monetary conference at Bretton Woods. For the quota allotted to Australia in the proposed International Monetary Fund was regarded in Canberra as much too low in relation to the volume and instability of the country's trade, and the United Kingdom was urged to accept without delay an undertaking along the following lines:

(a) that Australia should have free access to "normal" end-of-war balances (perhaps around £110,000,000);
(b) in return Australia would accept some limitation in the use of "abnormal" end-of-war balances;
(c) that Australian post-war "income" (in the form of additions to London funds) should be available freely for use within the sterling area;
(d) that the United Kingdom should make definite annual allocations of hard currencies.

[5] Gold production fell steeply during the war from £17,700,000 in 1939-40 (the wartime peak) to about £7,000,000 in 1943-44 and 1944-45. The rate of accumulation from this source was therefore limited. A proposal that the Bank of England should sell back to Australia some of the gold that it had acquired was not pursued because of the High Commissioner's advice that it would create serious diplomatic difficulties.

But the British were in no position to make any firm commitment of this kind, and discussions dragged on without result. Officials in Canberra realised only gradually the magnitude of the post-war settlement problem that faced the United Kingdom Government.

Further negotiation was suspended for most of 1945 while Anglo-American financial discussions were in train. The matter was reopened in 1946 and continued into 1947. By this time Australian officials had a better grasp of the British financial plight and were prepared to compromise. As a gesture to the scaling down of sterling balances, Australia agreed in 1947 to reduce its London funds by £25,000,000 as a gift to the United Kingdom. Further, it agreed to the continuation of the substance of the "gentleman's agreement" on the use of foreign exchange that had operated since the beginning of the war.[6] The United Kingdom retained the right to freeze all sterling balances, but in practice it was agreed that Australia could have free access to sterling so long as funds were withdrawn with great caution. Non-sterling imports were, however, to be subject to stringent control, as in the past. In short, the essence of wartime control was to be continued indefinitely.[7]

Uncertainty about the liquidity of foreign exchange reserves combined with the sterling area's chronic shortage of hard currencies determined a cautious approach to the relaxation of import licensing. A general lifting of import quotas could not be considered, therefore, until after the end of the war. Nevertheless, some selected increase in quotas was a necessary counterpart to preparations for reconstruction. The steep decline in imports in 1942-43 and 1943-44 (as depicted in the accompanying table) had reduced supplies of non-military capital equipment and raw materials more than proportionally; the easing of quota restrictions on sterling imports in these areas was accorded high priority together with a short list of essential consumer goods in very short supply.

The first list of quota revisions was issued in August 1944 to relieve serious shortages of machinery spare parts and selected consumer goods (including corsets). Thereafter the list was lengthened gradually with emphasis on building materials for the housing programme. In June 1945 Senator Keane, as Minister for Trade and Customs, urged a more systematic and comprehensive upward revision of quotas, and that priority should be given to non-sterling countries such as Belgium and the Netherlands. The substance of the argument was that the balance of trade with these countries was usually in Australia's favour, and that to ensure continuity of wool exports (and to expand trade generally) the Government should err on the side of liberality. The same applied to imports from the United States and Canada so that Australia would be seen to be moving towards honouring its obligations under Article VII of the Mutual Aid Agreement (and to forestall trade retaliation by these two countries). The sentiment was admirable in principle, but what

[6] Butlin, *War Economy 1939-1942*, Ch. 4.
[7] For further details see Giblin, *Growth of a Central Bank*, pp. 323-32.

emerged was that the Department of Trade and Customs had no clear idea about the state of the sterling area's dollar pool. There was therefore no alteration in the policy of relaxing quotas on imports from the sterling area if supplies were available from the United Kingdom or other sterling area countries. The lifting of quotas on non-sterling imports remained a last resort.

Detailed consultation with the United Kingdom was maintained during the process of relaxation. The major reason for the introduction of quotas on sterling imports was to help the United Kingdom retain supplies for her own purposes. Thus, in general, quotas were only increased when the British supply position had improved sufficiently to permit exports. The major relaxation of July 1945 followed advice from London that Britain was in a position to resume export of a wide range of machinery and semi-finished manufactures, and a limited range of consumer goods including woollen piece goods. The same procedure was followed during the progressive easing of quotas in the post-war period.

After the announcement of the termination of Lend-Lease, the Government declared its intention of abandoning the machinery of direct government importing as rapidly as possible and reverting to the use of ordinary commercial channels. The Division of Import Procurement, as the Government's importing agency, had been an essential part of the mutual aid organisation; it was also used to import those goods in short supply which could only be obtained on an inter-governmental basis. After the war the need for direct inter-governmental purchase declined rapidly and the division was disbanded on 1st August 1946.

BALANCE OF PAYMENTS ON CURRENT ACCOUNT
(£A million)

	Exports	Imports	Invisibles	Balance on Current Account
1941-42 . . .	133.1	—105.1	—60.3	—32.3
1942-43 . . .	117.0	—70.6	—63.7	—17.3
1943-44 . . .	136.4	—69.1	26.5	93.8
1944-45 . . .	136.8	—82.9	13.0	66.9
1945-46 . . .	264.7	—208.2	—104.4	—47.9

Source: *The Australian Balance of Payments 1928-29 to 1948-49*, Table I.

Export control was also eased gradually, although the reasons were different. Initially the main purpose of the control introduced in 1939 had been to ensure that the full proceeds of overseas sales were received into the banking system,[8] but thereafter the objectives multiplied. The most important supplementary reason for control was to ensure that supplies of scarce materials were retained in Australia. Thus proclamations were issued under the *Customs Act* prohibiting the export, except

[8] Butlin, *War Economy 1939-1942*, pp. 113-14.

under licence, of such strategic metals as copper, tin, lead and zinc. Control of such materials was designed, additionally, to support the work of the Prices Commissioner. In the absence of the licensing system there would have been a strong incentive to purchase at fixed prices in Australia for sale on the free export market at much higher prices. To strengthen the control of capital exports in the form of goods, Customs proclamations were issued to prohibit the export (without permission) of small articles of high intrinsic value such as jewellery, postage stamps, precious stones and watches with a high content of precious metal.

In 1943 the overseas exchange regulations which had been issued under the *Customs Act* were replaced by more stringent exchange control regulations under the *National Security Act*. In general the former regulations had worked satisfactorily, but a few loopholes had emerged in relation to the consignment and undervaluation of exports. In some cases it had been discovered that the proceeds of export sales had been deposited in the bank account of the exporter (or the exporter's agent) in the country of destination, and legal opinion was that the formal provision of the regulations had been satisfied by delivery of the documents to the Commonwealth Bank. In other cases the Commonwealth Bank suspected that export values were being understated, but as the *Customs Act* did not define export values adequately prosecution was unlikely to be successful. To close these loopholes, the Commonwealth Bank was given absolute discretion to determine the method of delivery of export proceeds. In the case of suspected undervaluation, the Minister for Trade and Customs was given authority to vary the invoice value and the amount of exchange to be received by the bank.[9] Penalties for evasion were also increased by virtue of the transfer to the *National Security Act*.

To conserve essential supplies for civilian and military requirements, stringent control of export continued through the remainder of the war and during reconstruction. As in the case of import control, the Commonwealth's authority did not depend on the *National Security Act* and there was no question of early disbandment of control. Indeed, in some instances control was intensified. In 1946, for example, the export of a range of metals and motor vehicle parts was prohibited. In general, however, control was eased as soon as production was able to satisfy the domestic market. A large number of prohibitions were still in force at the change of government in 1949. In December 1946 legal authority for the continuation of the exchange control provisions was transferred to the *Banking Act* of 1945.

MUTUAL AID: TERMINATION AND SETTLEMENT

Since its inauguration in 1941, the awkward questions of the termination and settlement of Lend-Lease had been put to one side. It was in the interests of the Allies not to raise the matter explicitly. Any discussion of settlement could imply financial commitment which was to be avoided as

[9] Statutory Rules 1943, No. 296, 10 Dec.

far as possible. The date of termination was also a matter to be left alone, for recipients were hopeful that Lend-Lease (or a suitable variant) would be used as an instrument of aid in the post-war transitional period.

Nevertheless, well before the Japanese surrender in August 1945 Allied governments had received ample warning from the United States Administration and Congress that Lend-Lease aid would be terminated without delay at the end of the war. In March 1945 the *Lend-Lease Act* had been amended to prevent Lend-Lease being used for "post-war relief, post-war rehabilitation, or post-war reconstruction"; in July President Truman ordered that Lend-Lease munitions be supplied solely for the war against Japan; at the Potsdam Conference a few weeks later the implications of the President's order were made even clearer; and at Congressional hearings the Administrator of the Foreign Economic Administration had given a firm undertaking that Lend-Lease would in no circumstances be used as a post-war measure.

None of these warnings prepared the Allies adequately for a White House decision of 17th August (two days after the Japanese surrender) that the Lend-Lease programme had been terminated. The decision was received in Canberra on the 18th through Australian War Supplies Procurement and was greeted with anger mingled with considerable apprehension about the effect on the transitional phase from war to peace of the abrupt termination of such a vital and elaborate instrument of wartime collaboration. The decision was felt the more keenly because there had been no prior consultation; the United States had cut the Allies adrift, in one unilateral stroke, from the most extensive scheme of international economic co-operation that had been known hitherto. On 23rd August the Australian Legation in Washington ventured an explanation:

> We have endeavoured to ascertain the reasons for the abrupt termination of Lend-Lease but no satisfactory explanation is available. The decision was apparently made on the highest level and the best guess is that the President believed he was interpreting American public opinion correctly and endeavouring to forestall Congressional pressure. The *New York Times* has criticised the action but other newspapers which we have seen took it as a matter of course.

Indeed, no other course of action was open to President Truman, for American public opinion was firmly set against any delay in the termination of Lend-Lease aid. If President Roosevelt had been alive a tapering-off period might have been arranged, but the new President could not afford to trifle with the feelings of Congress on this issue. The unilateral character of the American decision is explained in part by the unexpectedly rapid fall of Japan. In May 1945 it was anticipated that Japanese resistance would extend into 1946 and there was no time to prepare for Stage III discussions in the eventful weeks of July-August. Perhaps more strenuous efforts should have been made to establish the principles for Stage III (the termination and settlement of Lend-Lease) immediately after victory in Europe (V-E Day), but it was understandable that the United Kingdom should be reluctant to begin fresh negotiations so soon after the introduction of the comparatively favourable Stage II arrangement.

The American proposal for dealing with the termination of Lend-Lease showed that the Administration expected an immediate transfer to commercial transaction after victory against Japan (V-J Day), declared by President Truman to be 2nd September. The main points were:

(a) All goods and services ordered by other countries from the United States after V-J Day should be paid for on a cash basis, with certain exceptions [mentioned below].
(b) All goods which were at V-J Day in the pipeline (that is, in the process of manufacture, awaiting transfer or in transit) or which were already held by Lend-Lease recipients "in inventory" should be paid for on appropriate terms and conditions. (The value of pipeline and inventory goods was to be funded by a loan for thirty years at 2⅜ per cent.) Goods in inventory were to comprise all Lend-Lease goods that had not been lost, consumed or destroyed.
(c) Shipping services, but not repairs, would continue to be provided under Lend-Lease for a period of thirty (later extended to sixty) days for certain services.
(d) A very limited quantity of military supplies and services (excluding arms and ammunition) could continue to be provided under Lend-Lease in overseas theatres at the discretion of the commander, but would be stopped as soon as possible.

Washington announced, further, that for a period of sixty days after V-J Day payment for goods in the pipeline would be by "cash reimbursable Lend-Lease" (that is, through the usual Lend-Lease procurement agencies but for cash), finance to be provided either by the thirty-year loan or by dollar credits arranged through the American Export-Import Bank. After sixty days procurement would revert to ordinary commercial channels.

The shock of the abrupt termination of Lend-Lease was compounded by the immediate transfer to cash purchase and the proposed thirty-year loan. Australian officials had not given much thought to the financial implications of the winding up of mutual aid, but some assumed optimistically that the United States would accept a "wash out" by wiping the financial slate clean. This assumption overlooked Article V of the Mutual Aid Agreement (to which Australia adhered in principle) which provided for the return of any article supplied through Lend-Lease which had not been consumed or destroyed; it also ignored the United States Administration's political obligation to commercial interests to obtain a fair consideration from Lend-Lease recipients for any article retained which had post-war significance. But the proposed thirty-year loan at a near-commercial rate of interest was also unrealistic and, if accepted, would have been in defiance of the fundamental principle of mutual aid. The United Kingdom, Australia (and most other Lend-Lease recipients) agreed therefore to reject the thirty-year loan offer,[1] and the Australian Government deferred further consideration of Lend-Lease settlement until the outcome of the vital Anglo-American talks on post-war finance was known.

This still left unresolved the urgent question of pipeline goods and other essential supplies from the United States required for reconstruction. Advice from Washington was that pipeline goods ready for shipment to the value of $US3,000,000 would not be loaded unless payment was

[1] Full Cabinet Agendum 919, 5 Sept 1945.

guaranteed. These goods—and others on order—were essential for food processing, motor vehicle manufacture, building and construction, textiles and paper manufacture; any interruption of supply would seriously retard reconversion and threaten employment. In view of Full Cabinet's flat rejection of any long- or short-term credit arrangement, the only alternative was to pay cash if dollars could be obtained from the Empire pool. United States currency was made available for these immediate requirements but at the same time the Government was forced to impose "the most exacting screening of . . . importations from the United States", at least until after the Anglo-American financial negotiations. In an attempt to cultivate a more favourable climate of opinion in Washington, reciprocal aid was allowed to run on for several weeks after V-J Day.[2] When it became clear in mid-September that the President would not reverse his decision and allow a tapering off period for Lend-Lease, the War Cabinet decided to terminate reciprocal aid on 30th September 1945[3] and requested the United States to prepare an inventory of reciprocal aid goods held by them on 3rd September.

Although Australia was not involved directly in the Anglo-American financial negotiations which began in Washington in September 1945, the Government decided to send W. E. Dunk to the United States as a special observer who would report to the Treasurer. A. C. Moore, by then Director-General of Australian War Supplies Procurement in Washington, would represent the Minister for Trade and Customs. The matters that were likely to affect Australia were, first, the method and finance of Anglo-American Lend-Lease settlement, and, second, the anticipated American request for part "consideration" for Lend-Lease in the form of a progressive relaxation of Imperial preference.[4]

The matter that concerned Australia most was whether the United States would insist on, and the United Kingdom accept, an inventory or "bookkeeping" approach. Despite an assurance from Washington that no matter of principle was involved, Foreign Economic Administration's request at the end of August for a full inventory of all Lend-Lease goods not consumed or destroyed was regarded in Canberra as a Trojan horse for the creation of a massive post-war debt. Lord Keynes and Lord Halifax, leaders of the British delegation, were inclined to accept the word of the Americans that an inventory was required primarily for internal accounting purposes and would have no real relationship to Lend-Lease settlement. The Australian representatives, each with four years of intensive experience of the Americans behind them, were not prepared to believe anything. The nub of the matter was that between the British and the Australians interest in Lend-Lease settlement was quite different. For

[2] During Sep 1945 reciprocal aid, mainly in the form of food and transportation, amounted to between £3,000,000 and £4,000,000; this sum was added to the reciprocal aid inventory for inclusion in the final settlement.

[3] War Cabinet Minute 4447, 19 Sep 1945.

[4] The discussions about the liberalisation of international trade, which were closely linked with the financial negotiations, are part of the post-war story and will not be discussed here. For an excellent treatment from the American point of view, see Richard N. Gardner, *Sterling-Dollar Diplomacy* (1969).

the United Kingdom, settlement of the Lend-Lease question was merely a necessary precondition for successful negotiation of extensive American financial aid for reconstruction: Keynes and Halifax could not afford the luxury of unnecessary quibbling about procedure for fear of jeopardising the loan agreement. By contrast Australia was fortunate in not being a claimant for poor relief. Her international reserves were sufficiently healthy to afford a show of truculence.

Thus when the British representatives agreed to provide an inventory as requested the Australians believed that they had been deprived of most of their bargaining strength. To compensate, Dunk and Moore, reinforced by the arrival of Senator Keane early in November, spent much of their time assuring the State Department that the Australian Government would not yield so readily. The result was that virtually no progress was made towards Australian-American settlement in 1945. At the urgent request of Will Clayton (Assistant Secretary of State for Economic Affairs) who needed *some* figures to satisfy Congress, Australia agreed to prepare an inventory of (a) civilian-type consumer goods in the pipeline or in main Government stores; and (b) durable goods in the Government's possession or under its control. This was well short of the full inventory the Americans required, the main omission being durable goods—principally trucks and tractors—which were widely dispersed making almost impossible the compilation of an accurate list.[5] But for the time being this was as far as the Australian negotiators were prepared to go. At the end of 1945 the United States had still to request an inventory of military goods which were (with the exception of aircraft) of less political importance than civilian goods.

Some embarrassment was experienced in Canberra (more at the Australian Legation in Washington) with the publication early in December of the terms of the Anglo-American Financial Agreement. The United States had after all rejected the "bookkeeping" approach, and had agreed to settle in a generous way with the United Kingdom. About $US6 billion of Lend-Lease, surplus property and pipeline goods located in Britain were transferred for $US650,000,000, a figure well below ruling values. This sum was added to a loan of $US3.75 billion negotiated at the same time for the purpose of British reconstruction. The loan carried interest at two per cent, the first interest and principal payment to be made in 1951 thus allowing a five-year period of grace. The Dominions were not involved in the loan agreement except that London suggested that all Commonwealth Lend-Lease pipeline debits be combined and funded on the same terms as the Anglo-American loan, the United Kingdom collecting from the Dominions in the form of a reduction of sterling balances. This would have conserved the sterling area's dollar balances during reconstruction, but the Australian Government rejected the offer on the

[5] Most of the tractors and many of the trucks had been sold to private operators. To be sure, the preparation of an inventory of these goods would therefore have been particularly difficult, but the fact that they had been sold and that they were vital for reconstruction encouraged the Government to stress the accounting difficulties.

grounds that it would have a better chance of a favourable pipeline settlement through direct negotiations with the United States.[6]

Following submission of the Australian inventory to the State Department in January 1946, there followed several months of largely fruitless bickering between officials of the two countries about accounting procedure. The accounting problems associated with inventory valuation were for all practical purposes insoluble, and the top-level committee which

SUMMARY INVENTORY OF LEND-LEASE GOODS RETAINED IN AUSTRALIA
(prepared January 1946)

	£US million
Consumable goods in Government stores and in transit on V-J Day	54
Durable items in Government stores and in transit on V-J Day	1
Other durables under Government control	2
Machine tools	26
Water craft (salvage tugs)	11
Petroleum (for civilian end-use)	8
Transport aircraft	1
	103
Add distributed trucks and tractors	35
military items with civilian end-uses	10
	148

Note: The Australian Government insisted fairly enough that the values attached to these items were grossly inflated because of the American Lend-Lease pricing procedure and the artificial United States-Australia exchange rate, and that the figure would have to be reduced by at least one-third to approximate current commercial values.

met in Washington on 23rd April soon recognised that a political decision offered the only solution. Extreme bargaining positions were of course adopted initially. The Australians, led by Keane and Moore, sought a complete "washout"; the Americans, led by Thomas B. McCabe (Special Assistant to the Secretary of State), proposed $US100,000,000 on the basis of the residual inventory approach. No progress towards bridge-building had been achieved when the unfortunate death of Senator Keane on 26th April further complicated proceedings. Between the Senator's death and the arrival in Washington on 7th May of Chifley, now Prime Minister, to assume leadership of the negotiating team, an alarming deterioration had occurred in relations between Australian and American officials. The Australians (admittedly without senior political counsel) continued to demand a "washout", while the Americans, fearful of Congressional retaliation, insisted on commercial terms. Fortunately the intervention of Chifley and Under-Secretary of State Dean Acheson prevented a diplomatic rupture. Within a day of Chifley's arrival Acheson reduced the American offer to $US33,000,000; Chifley countered with $US20,000,000 ($US8,500,000 for machine tools, $US6,500,000 for the

[6] Full Cabinet Agendum 1001A, 13 Dec 1945.

United States-owned surplus property, and $US5,000,000 for non-combat aircraft required by the Commonwealth). On 9th May Chifley and Acheson agreed to split the difference between their respective offers and a settlement of $US27,000,000 was accepted, of which $US7,000,000 was to be paid in Australian currency and retained in Australia to be used by the United States Government for "educational and cultural programmes of mutual benefit".[7]

The speed with which this agreement was achieved after more than six months of protracted and often bitter dispute was a tribute to the pragmatism of the two leaders. Admittedly the terms of the settlement were weighted in Australia's favour and an American might view the result differently. Australia gained at virtually a give-away price a wide range of capital equipment essential for the task of reconstruction, including many new or near-new trucks and tractors, canning equipment, machine tools and aircraft. In addition she received large quantities of consumer goods and petroleum at nominal prices. It may be partly true, as Australian officials claimed, that the terms of the settlement reflected the very considerable contribution of the Australian economy to the supply of the American forces in the South-West Pacific Area in the form of reciprocal aid. No doubt this strengthened the country's bargaining position, but when all the cards were eventually placed face up on the table bargaining strength does not appear to have been of overriding importance. The United States expected to receive and was entitled to receive some compensation for the durable civilian assets that had been supplied; it was easy for recipients to forget that Lend-Lease was not an automatic right and was solely for the defence of the United States. And when the question of settlement was removed from the atmosphere of the counting house it became clear that the Administration's price was only barely sufficient to redeem its pledge to the commercial lobby of Congress.

Despite the lofty principles embodied in the *Lend-Lease Act* and its undoubted contribution to wartime economic and military collaboration, the scheme fell far short of the original notion of a genuine pooling of Allied resources in the interests of the joint war effort and the avoidance of post-war indebtedness. As detailed earlier, the Americans would do no more than keep the Empire solvent and provide the minimum assistance required for the conduct of the war in Europe and the Pacific. Throughout, the unpredictability of Lend-Lease diminished greatly the value of the aid when supplies eventually arrived. On countless occasions munitions projects were initiated hastily and inefficiently to plug gaps created by the non-arrival of Lend-Lease. The shortage of shipping was a valid explanation in 1942, but much less so thereafter. The inescapable fact is that Lend-Lease was administered in the interests of the American manufacturing and commercial lobby. Without aid on the scale that was provided, manufacturers of military equipment and other essential supplies would have had a very lean war. But aid had to be provided in a form that did not endanger the post-war prospects for American exports. Hence

[7] See summary text of Lend-Lease settlement in *Commonwealth Year Book* No. 37, pp. 393-4.

the endless wrangling over eligibility and the unilateral withdrawal of capital goods from the eligible list at the end of 1943.

Nevertheless, the Lend-Lease method of providing aid was preferable to most of the alternatives. It was, for example, far more satisfactory than the method of the war of 1914-18 which depended on loans. Even if loans had been provided interest-free, the creation of massive inter-governmental indebtedness and the required repayment might have strangled world trade after the war (as in the inter-war period). For the basic promise of Lend-Lease was fulfilled. The war did generate a considerable amount of inter-governmental indebtedness (with the United Kingdom as the prime debtor), but far less than in the absence of Lend-Lease or the like. As noted earlier, Australia escaped with a significant reduction in her overseas funded debt. Further, the Lend-Lease system of economic collaboration played a vital part in laying the foundations for the liberalisation of international trade and rapid post-war economic growth.

BANKING LEGISLATION

In several senses the Labour Government's wartime financial policy culminated in 1945 with legislation to reform the administration of the Commonwealth Bank and to subject the private banking system to rigorous and permanent control. The legislation was a major adjunct to the full employment policy, for without adequate control of the vast amount of liquidity generated by the war, chronic instability appeared probable. The Commonwealth Bank was constituted, formally, as a fully-fledged central bank. The legislation also embodied more than half a century of Labour tradition and prejudice about the private banking system.

The historical strand was never far beneath the surface. Following the bank failures of the eighteen nineties most Labour men believed instinctively in the need for strong government control of the activities of the private trading banks; and the more articulate section of the party considered that nationalisation of the banks was the only way to ensure that "national credit" would be made to serve the interests of "the people". The Commonwealth Bank was established by a Labour Government in 1912 as a step towards the fulfilment of this objective. According to Labour tradition, the Bank had grown rapidly during and immediately after the war of 1914-18 and had been effectively established as "the people's bank" in these early years, but in 1924, when the control of the Bank was transferred from the Governor to a Board of Directors by the Bruce-Page Government, the Commonwealth Bank ceased to behave in the interests of "the people" and instead became an appendage of the private banking system. The refusal of the Bank to finance authorised government expenditure during the early 'thirties appeared to confirm this view, as did the Report of the Banking Commission of 1937.

First among the changes dictated by doctrine was abolition of the Board of Directors and the restoration of the Governor to the position of figurehead as well as chief executive. Implied in this change was a restatement of the obligation of the Commonwealth Bank to compete

actively with the private banks for business. When proposals for the establishment of a bank were under discussion within the Labor Party in 1908-11, it was taken for granted that the bank would compete vigorously in the field of general banking so as to curb the influence of "the money power". But, in the words of the Bank's historian, it was not long before "it became a tradition that the Bank would not in general take over an overdraft account from a trading bank which was prepared to offer reasonable terms to the borrower".[8] This tradition was in the process of formation before the creation of the Board in 1924, but the Labor Party associated the principle of restraint of competition with the years after 1924.

The Labor Party also believed, with more justification, that the Board had become an impediment to the proper co-ordination of fiscal and monetary policy. So as to avoid a repetition of the events of the early 'thirties and ensure that the general policy of the Bank would in future conform to the wishes of the government of the day, the party resolved at its Federal Conference in December 1943 to provide, in permanent legislation, for the "Commonwealth Bank to be subservient to the Government". Abolition of the Board thus implied a number of fundamental changes in the nature of financial regulation.

The existence of stringent wartime banking regulations provided the Government with an opportunity to implement the substance of Labour's banking policy. It was clear even to conservative bankers that wartime regulations would need to operate for some time after the war, and the Government was quick to realise that the longer permanent legislation was delayed the more difficult it would be to retain the degree of control that Labour required. Banking reform was therefore accorded a high priority and detailed technical discussions were initiated in June 1944.

Political considerations were not imposed on these early discussions and on technical matters the advice of the Commonwealth Bank was accepted with a minimum of qualification. The most urgent question before Bank officers and Treasury officials was the future of special wartime deposit accounts. Continuation of the procedure appeared to offer the simplest and most practical solution, but some consideration was given to the adoption of a closely related alternative—a system of variable minimum deposits along the lines recommended by the Banking Commission. In principle the Commonwealth Bank favoured the alternative as being in line with overseas practice and providing a less offensive instrument of control, but practical politics ruled this out of consideration early in the discussions. The difficulty was that minimum deposits in excess of fifty per cent would be required by the Commonwealth Bank for a number of years, and it was believed that publication of such high rates would lead to widespread criticism and strong pressure for premature downward revision. On the other hand, the special accounts arrangement dealt in sums of money rather than ratios: the extent of control would be (to a degree) concealed. It was therefore agreed that a continuation of the

[8] Giblin, *The Growth of a Central Bank*, p. 3.

special accounts machinery should form the basis of post-war monetary control.[9]

Once the means of quantitative control had been established, there was not much doubt that most of the remaining wartime regulations affecting the banks would be incorporated in permanent legislation. In view of the emphasis on low rates of interest, the need to maintain a strong market for government securities in the post-war period, and the worldwide emphasis on cheap money, control over bank interest rates was a foregone conclusion. So also was continuation of exchange control regulations. With the experience of currency chaos in the inter-war years and the expectation of an upsurge in demand for foreign currency after the war, the Bank argued that exchange control administered by the central bank would be necessary

(1) to ensure that overseas funds will be available for the debt service and for essential imports, visible and invisible;
(2) to maintain control of the exchange rate;
(3) to prevent undesirable transfers of capital (in association, for instance, with any International Monetary Fund arrangements).

Subject to examination of the constitutional validity of the peacetime application of exchange control beyond the banking system, the Government accepted this recommendation. There was more uncertainty on the part of the Bank on the desirability of maintaining qualitative control over bank advances, mainly because it believed that such a policy could not be fully effective. In view of the uncertainty about the future of capital issues control, Chifley was in no doubt that qualitative control would be necessary and Cabinet approved his recommendation that the "Commonwealth Bank may, when necessary in the public interest, give directions to the trading banks as to the classes of purposes for which advances may be made".[1] Control of trading bank profits was the only significant regulation which was dropped. The Government, with ideological regrets, accepted the Bank's strong argument against continuation of profit limitation and was content, instead, with imposing an upper limit of 17s. 6d. per cent on interest payments on special accounts, a device which Chifley cogently argued would achieve a similar objective.

To ensure that trading banks conformed to central bank directives provision was made for existing banks to be issued with authorities to carry on banking subject to compliance with the provisions of the proposed Act. The issue of an authority to a new bank would only be made at the discretion of the Treasurer, and the Full High Court would have the power to revoke an authority if it was found that a bank was failing to comply with the conditions. Machinery was provided for the Commonwealth Bank to assume control in the event of a bank failure or impending failure, and banks were to be subjected to the scrutiny of public audit. Any

[9] The original proposal was that the machinery be reviewed in five years with possible transfer to a system of variable minimum deposits, but this was deleted by Cabinet. Full Cabinet Agendum 768.

[1] Full Cabinet Agendum 768. Cabinet decided also that the Bank should retain control over trading bank purchases of government securities, a power which was unnecessary in view of the decision to maintain control over the direction of advances.

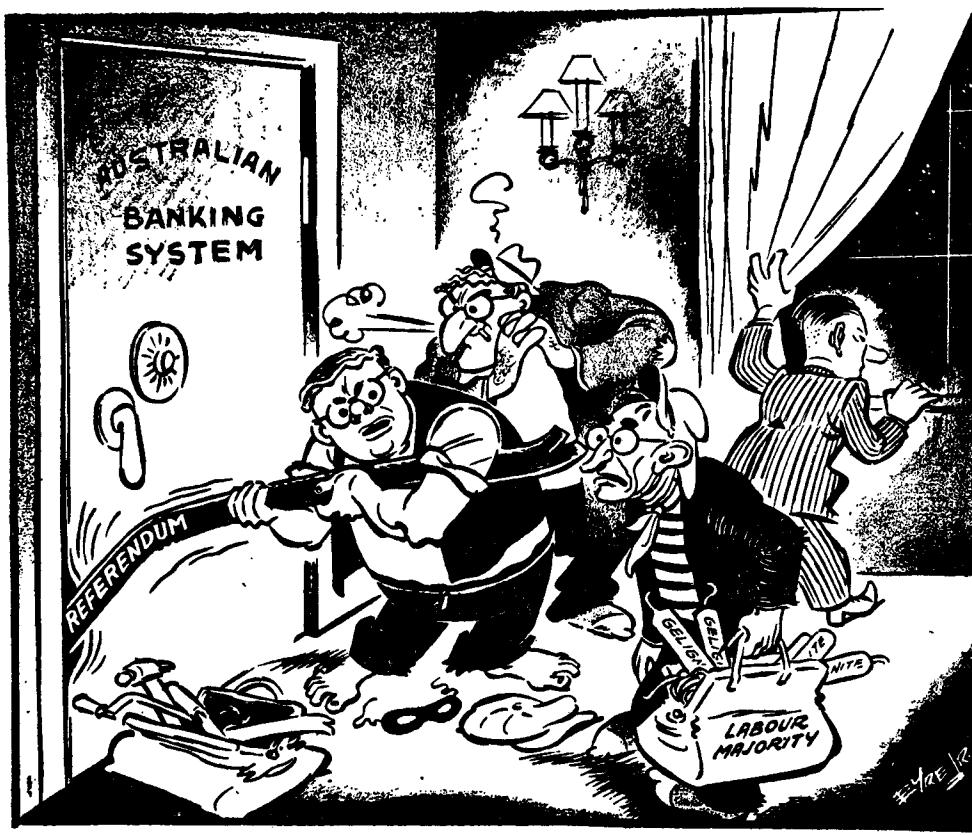
bank amalgamations or reconstructions were to be subject to the consent of the Treasurer.

These proposals were incorporated in the Banking Bill introduced into Parliament on 9th March 1945. They represented a radical departure from the pre-war situation of piecemeal central bank control which depended for its effectiveness on the voluntary co-operation of the trading banks. The central bank would now have power to enforce its policy, although effectiveness would still depend in part on the willingness of banks to conform to the spirit of directives. The measures in themselves were not revolutionary. Since the end of 1941 wartime regulations almost identical with the proposed legislation had been successful in assisting the diversion of financial resources to war purposes. But would such a system of regulation be suitable for the post-war world? Special accounts, in particular, had proved effective in restricting the volume of trading bank lending, but would the procedure prove sufficiently flexible in a period when the policy signposts would be much less clearly marked than in wartime? These questions received very little attention at the time. The preoccupation of both the Government and the Bank was the restraint of inflation in the early post-war years, and the special accounts arrangement was of proven value in restricting the rate of growth of "available" money supply. There was also, of course, a strong presumption within the Government that the activities of the trading banks should be heavily restricted, and some Ministers proposed outright nationalisation.[2] Cabinet's rejection of the Bank's useful suggestion to have the special accounts procedure reviewed in five years was an indication of the importance attached to the device as a means of restraint. The trading banks were not consulted on any aspect of the Bill; and in Parliament the Opposition destroyed the opportunity of discussing the merits and objectives of the Bill's technical provisions by turning the debate into a political orgy.

Although the Banking Bill contained the means of post-war monetary control, far more political attention was given to associated proposals for reform of the Commonwealth Bank. As noted earlier, three changes were predicated by Labour's pre-war interpretation of Bank policy and behaviour: (a) abolition of the Board of Directors; (b) subordination of the central bank's general policy to that of the government; and (c) expansion in active competition with the private trading banks of the Commonwealth Bank's commercial business. These matters were not the subject of discussion with the Bank; nor were they the subject of official consideration with the Treasury. They were transferred directly from Labour policy to a Cabinet agendum.

There was however some official discussion as to whether the Bank's trading and central bank functions should be completely separated by the creation of a new institution. As an important element in the legislation would be the formal creation of a central bank, the purists argued in favour of separate incorporation. This suggestion foundered on the

[2] L. F. Crisp, *Ben Chifley: A Biography* (1961), p. 178.



"This Jemmy's No Good, Gimme The Gelignite"

Eyre Jr in Sydney Morning Herald *6 Dec 1944.*

Evatt, with Calwell behind, tackles the door, while Dedman keeps watch and Makin holds the bag.

Labor Party's determination to strengthen the Commonwealth Bank vis-à-vis the trading banks. The Bank supported the party's desire to retain the name "Commonwealth" and for a time proposal to incorporate the central bank as the "Commonwealth Bank of Australia—Reserve Bank" received Chifley's tacit approval. However, the advantages of separate incorporation appeared to lose their attraction once it was decided to retain the name "Commonwealth". The stated reasons for the decision not to separate the Bank's trading and central bank functions included the high cost of establishing a new institution, the shortage of experienced staff, and public confidence in the Commonwealth Bank, but a more important reason was probably the realisation that in the event of separation the Commonwealth Bank would be subject to the provisions of the Banking Bill.[3]

Although abolition of the Board of Directors and the explicit restoration of the Governor's position was an article of faith within the Labor Party, the Treasurer's views on the future management of the Bank were not as dogmatic as might be supposed. On 6th October 1944 Chifley received a semi-official letter from the Director-General of Post-War Reconstruction which appears to have been influential in softening the Treasurer's views on the question of the Board's abolition. Coombs argued strongly against such a move because

> Banking is a limited field of experience, and bankers are notoriously narrow in their outlook and inclined to rule-of-thumb methods. The existence of a Board to whom executive decisions have to be submitted forces them to consider the reasons for the action they recommend and to justify their recommendations. Furthermore, it prevents Bank policy being determined solely from a banking point of view, since members of the Board will, generally speaking, have experience other than banking and collectively will provide a wider outlook on the problems facing the Bank.

Coombs suggested, fairly enough, that the Labor Party's animosity towards the Board was derived from the appointments that had been made rather than from the principle involved, and pointed out that it would not be long before all existing Board members were Curtin Government appointees. If the Government insisted on changing the present nature of the Board, Coombs suggested that its replacement should have full executive responsibility, as an advisory body would not act as a focus for the Bank's activities or provide a check on arbitrary and mechanical procedures. However, he believed that the best way to ensure that Bank policy was broadly based and also conformed to Government policy was to retain the existing composition and functions of the Board together with the establishment of a Parliamentary Standing Committee on banking, the latter to confer with the Board at intervals.

Chifley went some way towards meeting these views in his preliminary submission to the Prime Minister. On 9th October he suggested two alternatives for consideration: (1) a Board of six or seven to include the Governor, Deputy Governor and Secretary to the Treasury plus three or

[3]As the administering authority, the Bank was exempt from the National Security (Wartime Banking Control) Regulations and this exemption was continued until the proposed legislation of 1945.

four ordinary members assisted by an Executive Committee—an inner Board—of three *ex officio* members and one ordinary member; (2) a small Board consisting of the three *ex officio* members as in (1) assisted by an Advisory Council of seven members appointed by the Government which would act as a "sounding board" before decisions were reached. Of the two alternatives the Treasurer preferred the second; the first was uncomfortably close to the existing Board. However, the door was left open for the retention of the Board in principle, and these alternatives went to the Full Cabinet with only minor modification[4] in January 1945. But the Cabinet was not prepared to compromise Labour beliefs and rejected outright the first alternative and overhauled the second. It decided that no mention should be made of a Board of Directors and that full executive responsibility should be vested in the Governor. As part of his modified second alternative Chifley proposed that the Advisory Council should consist of seven members including three drawn from private industry. Cabinet approved the recommendation for the Advisory Council but decided to exclude appointments from private industry and restrict the number of members to five.[5]

This decision reflected above all Cabinet's determination to ensure that after the war fiscal and monetary policy would be properly integrated. There were two aspects of this question: first, the ultimate authority for the determination of monetary policy, and second, the broad objectives which should be followed by the Bank.

The first of these was easily the most controversial part of the proposed legislation. Orthodox opinion was adamant that monetary management should be free from political interference and was convinced that the retention of the Bank's Board was essential for the preservation of its independence. The Labor Party, supported by an influential group of economists, was equally insistent that the political independence of the central bank was neither possible nor desirable. It believed, with justification, that freedom from political interference was a euphemism for the domination of monetary policy by conservative and business interests, while most economists were moving to the view that the full integration of fiscal and monetary control was essential to prevent a repetition of the events of the early 'thirties. The Report of the Banking Commission lent authority to Labour's view. A majority of its members had recommended (para. 530) that

> The Federal Parliament is ultimately responsible for monetary policy, and the Government of the day is the executive of the Parliament. . . . Where there is a conflict between the Government's view of what is best in the national interest, and the Board's view, the first essential is for full and frank discussion. . . . In cases in which it is clear beyond doubt that the differences are irreconcilable, the

[4] The Supplement to Full Cabinet Agendum 767, 10 Jan 1945, excluded mention of the Executive Committee from the first alternative and detailed the proposed membership of the Advisory Council in the second.

[5] To consist of the Secretary to the Treasury, one other senior government official appointed by the Governor-General, the Deputy Governor and two officers of the Bank appointed by the Treasurer on the recommendation of the Governor. The Governor would attend meetings of the Council and take the chair, but would not be entitled to vote and would not be counted towards the quorum which was set at three.

Government should give the Bank an assurance that it accepts full responsibility for the proposed policy, and is in a position to take, and will take, any action to implement it. It is then the duty of the Bank to accept this assurance and to carry out the policy of the Government.

The Commission's report had received widespread acceptance, and political expediency directed that the wording of this paragraph should be followed as closely as possible. The Opposition's attack on "political control" was fully anticipated and Chifley was anxious, as was H. T. Armitage,[6] Governor of the Commonwealth Bank, to avoid the appearance of tampering with the Commission's recommendation. But legal doubts made this impossible. The Attorney-General argued that the Government might not always be "in a position to take . . . any action necessary to implement" its policy for the Constitution might limit its ability to act and both Houses of Parliament might not pass the necessary legislation. It was therefore decided to simplify the wording and qualify the Government's obligation to see that its policy was implemented. The amended version provided that

If the Treasurer and the Bank are unable to reach agreement, the Treasurer may inform the Bank that the Government accepts responsibility for the adoption by the Bank of a policy in accordance with the opinion of the Government and will take such action (if any) *within its power* as the Government considers to be necessary by reason of the adoption of that policy. [Our italics.]

As anticipated, the Opposition made much of the change in Parliament and L. F. Giblin, one of the strongest supporters of government control of monetary policy, described the modification as a "travesty of the Commission's para. 530".[7] With the memory still fresh of the bitter conflicts between the Bank and the Government during the early 'thirties, it is understandable that this softening of tone should have given concern. But in view of the legal doubts Cabinet had no real alternative and in retrospect it is clear that the departure from the wording (but not the spirit) of the Commission's recommendation has been of small consequence.

The desire to clarify and set in a wider context the objectives of monetary policy also sprang from the experience of the early 'thirties. The Bank Act of 1924 had placed exclusive emphasis on the Bank's responsibility for the management of the currency, and during the depression this obligation was interpreted narrowly. The "Charter" which was incorporated in the Commonwealth Bank Bill provided a link between the broad objectives of monetary and fiscal management. The "Charter" stated simply that

It shall be the duty of the Commonwealth Bank . . . to pursue a monetary and banking policy directed to the greatest advantage of the people of Australia, and to exercise its powers . . . in such a manner as . . . will best contribute to
(a) the stability of the currency of Australia;
(b) the maintenance of full employment in Australia; and
(c) the economic prosperity and welfare of the people of Australia.

[6] H. T. Armitage, CMG. Bank of NSW 1897-1912; Acct, Ch Acct, Sec, HO Mangr, Ch Insp, Dep Gov C'wealth Bank 1913-1940; Governor C'wealth Bank 1941-48. B. Colombo, 17 Feb 1881.

[7] Undated Treasury memorandum, probably written late Jan 1945.

To a later generation this would appear as a bland mixture of the obvious, but it was at the time a distinct break with the Bank's traditional emphasis on currency management; it was also a prelude to the full employment policy elaborated in the 1945 White Paper on Full Employment.

Expansion of the Bank's commercial activities in active competition with the private trading banks was the remaining political objective of the proposed legislation. Legally, no action was necessary: there was nothing in existing legislation to prevent the Bank competing aggressively for all branches of business. However, in view of the tradition of heavily restricted competition between the Commonwealth and private banks, Cabinet decided that the Bill should contain specific directions to the new management to expand the trading bank section of the Commonwealth Bank and not to refuse any business for the sole reason that the business had been undertaken previously by another bank. Despite assurances to the contrary, the private banks were suspicious that this instruction would lead to a misuse of central bank department funds; they believed that the note issue reserve and special deposit accounts would be channelled to the trading bank section to facilitate the expansion of advances at low rates of interest. This suspicion was nurtured by the rapid post-war expansion of the Commonwealth Bank and was an important factor in leading to the division of the Commonwealth Bank in 1959 into the Reserve Bank of Australia and the Commonwealth Banking Corporation.

Technical clauses comprised most of the remainder of the Commonwealth Bank Bill,[8] but mention should be made of provisions for the creation and expansion of specialist forms of finance required for post-war reconstruction. Attention was concentrated on three areas: long-term mortgage finance for rural industries; risk capital for the development of small manufacturing firms and industries; and cheap long-term finance for home purchase.

The first of these predated the 1945 legislation. Indeed, in response to the recommendation of the Banking Commission (para. 681) that "A mortgage bank or mortgage banks should be established to provide facilities for fixed and long-term lending" the Lyons Government had drafted a bill in 1937 to add a mortgage bank department to the Commonwealth Bank. The proposal languished partly because of procrastination and partly because of the outbreak of war. Even before the war the Commonwealth Bank was less than enthusiastic, and when the Curtin Government revived the idea at the end of 1941 it was openly hostile. The Bank argued, first, that staff was simply not available to man the new department and, second, that existing facilities (mainly in the form of State banks) were adequate for the task envisaged. These objections

[8] The most important of these was the abolition of the note issue reserve which, under existing legislation, was set at a minimum of twenty-five per cent. Theoretically, the reserve was intended to guard against currency inflation, but by 1945 it was clear that note issue expansion was not generally an important factor in an inflationary situation. Cabinet therefore decided on unqualified abolition and rejected suggestions that a national exchange reserve should be created or that an upper limit be placed on the note issue.

succeeded in delaying the introduction of the Bill[9] but with the aid of the Country Party were eventually brushed aside. The mortgage bank department was established by amendment to the *Commonwealth Bank Act* in 1943 with a capital of £4,000,000. During the course of the parliamentary debate the conditions for loans were considerably relaxed and when the department commenced business it announced that it would offer first mortgage advances up to 70 per cent of the value of land used for primary production with a maximum loan of £5,000 for 5 to 41 years. As predicted by the Bank, there was not much demand for the new facility. The department performed much of the same function at similar cost as the well-established State institutions and (as shown in the table) advances increased slowly even after the war. The department was merged with the industrial finance department in 1959 to form the Development Bank of Australia.

COMMONWEALTH BANK: MORTGAGE BANK DEPARTMENT, ADVANCES (£'000)

At 30 June	Advance applications approved (cumulative total)	Net advances
1943	33	—
1944	1,165	—
1945	2,108	—
1946	2,952	2,504
1947	3,789	3,022
1948	4,359	3,243
1949	5,116	3,301

Note: For 1943 balance of approvals as at 4 October.

The proposal to establish an industrial bank to finance the development of small manufacturing industries also originated with the Banking Commission. The Commission had found (para. 572) that there existed "a lack of facilities for the provision of long-term capital for persons of limited means who have been successful on a small scale in a secondary industry which is capable of expansion and deserving of encouragement in the public interest". Bank advances (being repayable on demand) were neither suitable nor generally available for this kind of lending, so that most small manufacturers were faced with the uncertain prospect of raising capital for expansion from private sources or depending on the accumulation of undivided profits. The Commission had therefore recommended (para. 687) that "Governments, with the assistance of the Commonwealth Bank, should investigate the problem of setting up institutions to supply the needs of small concerns in secondary industries".

No such investigation had been conducted before the war,[1] but the

[9] The Bill was first introduced into the House of Representatives in Sep 1942, but shortly after was withdrawn and submitted to a Parliamentary Committee for report. A new Bill was introduced in Feb 1943 and was passed in April. The new department commenced business in Sep 1943.

[1] At the end of 1937 the Lyons Government appointed J. B. Brigden, at the time Director of the Queensland Bureau of Industry, to an investigating committee, but no further appointments were made and the matter lapsed.

matter was reopened in 1944 when the Commonwealth Bank urged in its annual report that consideration be given to the capital needs of small industries in the post-war period. The Secondary Industries Commission also recommended along the same lines, with particular emphasis on the need for capital to assist the conversion of wartime industry to peacetime production. Chifley therefore acted promptly and appointed an inter-departmental committee on 30th October 1944 consisting of representatives of the Treasury, the Department of Post-War Reconstruction, the Secondary Industries Commission and the Commonwealth Bank to draw up specific proposals for the establishment of an "Australian Industrial Bank". However, little Australian evidence was available to the committee about the size of the capital shortage facing small businesses and information supplied from overseas confused rather than clarified the issue. This uncertainty about the extent of the shortage and the role the proposed bank would play allowed differences between departments to flourish. The Treasury believed that there would be little demand for this type of finance and feared that the bank would, if allowed too much capital and independence, become a means for the diversion of funds to subsidise inefficient industries. Treasury therefore argued that the bank should commence modestly and as a department of the Commonwealth Bank for economy of administration, at least until the value of the facility had been established. By contrast, the Department of Post-War Reconstruction believed that the bank should play a prominent and aggressive role in post-war industrial development. In addition to lending and guaranteeing loans, the department thought that the bank should engage in such activities as underwriting share and debenture issues, dealing and operating in property of all kinds, advising on finance, production and markets, and providing from its own staff directors, managers and secretaries for industrial enterprises. The suggestion that the bank should become an appendage of the Commonwealth Bank was stoutly resisted. The Director-General of Post-War Reconstruction argued, validly enough, that the bank would be required to take investment decisions and risks alien to orthodox banking principles and that the proposed bank's chief executive would need to be independent of the Governor. The Commonwealth Bank occupied an intermediate position between these views: it agreed that there was a substantial "gap" to be filled but preferred that the bank become a department of the Commonwealth Bank.

Little progress was made in reconciling these differences in the few weeks that were available to the committee and the Treasurer was presented with a semi-finished memorandum which concentrated on technicalities. Indeed, there was little prospect of constructive reconciliation in view of the shortage of time and the inexperience of most of the committee's members in this highly specialised field of financing. Thus, given legal doubts about whether an independent industrial bank would be regarded as a bank within the meaning of the Constitution, and Labor Party prejudice in favour of enlarging the Commonwealth Bank, the Treasury's view prevailed. Compromise was, of course, effected on some

points. As a minor concession to the argument about the need for independence, the industrial finance department's chief executive was made a statutory appointment; and, in general, the department retained the wide range of functions as originally proposed. But capital was reduced from a Post-War Reconstruction suggestion of about £20,000,000 to £4,000,000[2] (with borrowing power up to four times capital), a figure which was derived from bureaucratic logic that the new department should be brought into line with the mortgage bank department.

In an aggregate sense the department grew rapidly in the years 1946-49 and contributed in an important way to easing the post-war shortage of capital. But, as shown in the table, expansion occurred primarily through hire-purchase financing. During the first months of business a number of capital issues were underwritten, a small portfolio of industrial shares and debentures was acquired, and a modest loan was approved in association with the Department of Munitions for the conversion of a wartime factory. But these activities were of diminishing importance after 1946, and during 1949 hire-purchase absorbed 78 per cent of advance approvals. Further, the department's hire-purchase outstandings in 1949 exceeded those of the Industrial Acceptance Corporation—the largest private company in the field.

COMMONWEALTH BANK: INDUSTRIAL FINANCE DEPARTMENT, ADVANCES (£'000)

As at	Ordinary advances	Hire-purchase	Ministry of Munitions	Fixed loans	Capital subscriptions	Total
		Approvals Only				
30 Sep 1946	1,358	568	133	58	130	2,247
31 Mar 1947	2,838	1,166	133	70	80	4,287
		Net Advances				
30 Sep 1947	2,934	1,577	133	173	30	4,847
30 Sep 1948	4,194	6,214	133	211	51	10,806
30 Mar 1949	4,912	8,873		215	75	14,075
30 Sep 1949	5,327	11,499		215	79	17,121

Note: Slight discrepancy due to rounding.

Source: Minutes of Commonwealth Bank Advisory Council.

An examination of the reasons for the development of the department in this way lies outside the scope of this history; but the emphasis on hire-purchase does not necessarily imply that industrial finance was neglected. Indeed, most of the contracts were, at least nominally, for the acquisition of light industrial equipment, especially commercial motor vehicles and machinery. The department was also active in assisting the purchase of agricultural machinery when finance from other sources was not available to farmers. There was of course substance in the claim that many private vehicles were purchased under the guise of industrial

[2] Half of the capital was provided from the special reserve account of the note issue department and the other half from the general funds of the Commonwealth Bank.

equipment, but this was more or less inevitable in view of the impossibility of drawing a clear distinction between "commercial" and "private" to cover all situations. Despite the loopholes in these categories, the department's policy did help to divert resources to investment in the capital-hungry post-war years. The real disappointment was that the department did not evolve as originally conceived; the "gap" in the financial structure was as prominent after 1945 as it had been before the war.

The third special provision in the Bill to assist the finance of post-war reconstruction—a clause to the effect that the Commonwealth Savings Bank would make loans available for home building and acquisition "at the lowest practicable rate of interest"—was no more than political window dressing. The Bank Board pointed out that housing loans were already available from the Savings Bank on reasonable terms and that a statement in the Bill to this effect would be superfluous. But Chifley insisted that as much publicity as possible be given to the availability of facilities for housing finance and Cabinet endorsed the sentiment.

During parliamentary consideration of the two Bills the Opposition and some of the private banks attempted to work up hysteria against the proposals by claiming that they would represent political control of the financial system. As the Government expected, the main target was the intention to abolish the Board of Directors. But, after five years of rigid and almost complete control of monetary policy by the Government, predictions about the dire consequences of "political control" had a hollow ring. The Bills were passed without significant amendment and the legislation was proclaimed on 21st August 1945 (with the exception of Parts X and XI of the *Commonwealth Bank Act*, the sections dealing with the creation of the industrial finance department and housing finance).[3] The wartime banking regulations were repealed on the same date.

[3] These parts were proclaimed on 24 Dec 1945 to come into force on 2 Jan 1946.

CHAPTER 21

TOWARDS A NEW SOCIAL ORDER

PREPARING for the peace is an indispensable part of warfare for both psychological and practical reasons. Military propaganda, however ingeniously conceived and relentlessly disseminated, has clear limitations. National psychology, particularly in a democracy, requires careful management: over-manipulation in one area will generate fatigue and retrogression unless balanced by attention in others. Public declarations of post-war aims provide therefore an essential component of wartime policy. Amidst the restrictions, frustrations and uncertainties of wartime existence, they offer hope for new and broader horizons or, at least, for a return to the pre-war order. For government official and private citizen alike, therefore, reconstruction planning was the positive side of the war effort.

For more mundane reasons, too, preparations for the peace were required from an early stage. Demobilisation would be a task of major proportions, and the experience after the war of 1914-18 in Australia and elsewhere had demonstrated the chaos that could result from inadequate preparation. Even in 1941 it was plain that the physical problems of relocating men in peacetime occupations and transferring industrial resources would be far greater than in 1919, for there were already half a million men and women in the forces and other direct war work. At the very least therefore adequate planning of the withdrawal from the war economy combined with the creation of new employment opportunities was required.

Although reconstruction planning is an integral part of the wartime story, it is not possible in this volume to take the account much beyond the end of the war. Yet there is a continuity in the subject which is not interrupted by the cessation of hostilities. To be sure, the armistice with Japan added a new sense of urgency and permitted the implementation of many plans for the first time, but in other instances the end of the war merely accelerated the pace of projects which had been in train for some time. Indeed, in such areas as employment-creation, population and industrial policy—matters which figured prominently in reconstruction planning —the origins of the wartime approach are to be found before 1939 even though the impact of war altered the focus dramatically.

As there is no logically satisfactory way of delimiting reconstruction chronologically, the compromise adopted in this and the following chapters is to terminate the story as quickly as possible after September 1945. In some instances specific elements of policy will be taken forward from that date but only to link up with post-war events. This means that the implementation of reconstruction policy falls for the most part outside this volume so that the usual historian's assessment is inappropriate. The purpose of these chapters is to indicate the nature of post-war preparations that were made during the war, and the interaction between reconstruction

and war policy. This chapter is concerned with the broad principles that were developed at home and in external relations, while the following three chapters trace particular domestic policies. The four are not, however, self-contained. From 1943 onwards most aspects of government policy were directed towards preparing for the peace, notably the manpower reassessment of October 1943 and the related reduction in munitions production. The subjects which are dealt with in these chapters fall outside the administrative functions of government connected with the prosecution of the war, and are centred primarily on the activities of the Department of Post-War Reconstruction and its agencies.

FIRST STEPS

Consideration of post-war problems was initiated well before Pearl Harbour. At the end of 1940 a Reconstruction Division had been created within the newly established Department of Labour and National Service, and in February 1941 an inter-departmental Advisory Committee on Reconstruction with H. E. Holt as chairman and Evatt as vice-chairman had been appointed to advise on and co-ordinate reconstruction planning. The emphasis at this stage was on decentralisation so as to draw most branches of government into the discussion. The Reconstruction Division itself was a very small unit and did not have the breadth of experience or detailed knowledge to grapple with the problems without assistance. In any case a single agency was thought to be inappropriate for such a task: reconstruction would affect every segment of government policy, so every department should contribute its own ideas and plans.

During 1941 specialist committees and study groups were formed in an effort to identify the issues. Primary emphasis was placed on re-establishment of servicemen and munitions workers, and the most active committees were concerned with demobilisation, preference, repatriation and retraining. In addition, however, an attempt was made to anticipate the broad economic and social problems that were likely to arise. An external relations committee was formed, and also a development co-ordination committee to oversee industrial and rural reconstruction, and public works planning. Economic welfare and social security were within the province of a Parliamentary Joint Committee on Social Security.[1]

The result of this network of committees was a host of discussion papers and modest progress towards identifying post-war objectives. Much of the discussion was necessarily vague but even in 1941 the preoccupation of later years was taking shape. The central concern of both re-establishment and economic committees was post-war employment prospects. With hundreds of thousands of men already mobilised and unemployment not entirely eliminated, the vision of a return to mass unemployment after demobilisation was vivid; it was assumed that no government whatever its political complexion could avoid giving employment policy

[1] This particular committee was one of the few joint committees to have survived and prospered after the change of government to the extent that its report of 8 Oct 1942 was its fifth.

the highest priority. Sir Harry Brown expressed the general view in a memorandum on the post-war role of public works:

> it is certain that in a land of abundant natural resources we shall not countenance the dire poverty of widespread unemployment as it has been known in the past.
>
> Serious and widespread unemployment or a lowering of the standard of living will not help the national economy. It will be much more profitable to proceed with a comprehensive programme of useful national works than to place thousands of workers on sustenance. Moreover, it will certainly be safer and will be a better guarantee for the maintenance of a reasonably contented and well-ordered society.

The Treasury, while cautious about creating employment for its own sake, accepted the point nevertheless:

> The fundamental aim of post-war society should be the maximisation of the community's social welfare. Opinions will differ as to what constitutes maximum social welfare but we can . . . take it that the maximum possible Real National Income, i.e. the maximum standard of living, is an essential pre-requisite.
>
> The minimum of unemployment is a necessary condition for a maximum Real National Income but it is by no means the only one. The nature of the output produced by an economic system in full employment may vary and it will be necessary to ensure that our post-war output does provide the basis for a maximum standard of living. . . . If the making of roads which are at present unnecessary is the *only* means of providing employment for a section of the community, then it is desirable to make these roads. But if possible those men should be employed in the production of something which the community needs more urgently, say hospitals.

These notes were written in mid-1941, and it is interesting to see that the main preoccupations of the post-war generation—full employment and economic growth—were evident before the change of government.

As the two extracts indicate, public works expenditure was envisaged as the main way of absorbing war workers and in moderating the influence of the trade cycle. Most committees endorsed in principle Sir Harry Brown's suggestion that the preparation of a comprehensive list of essential works in close association with state and local governments (for initiation immediately after the anticipated reconversion boom was exhausted) should be accorded the highest priority. The emphasis given to public works reflected scepticism about the capacity of primary and secondary industries to create new employment opportunities at the necessary pace. The traditional concern about the prospects for primary exports and about the level of external monetary reserves was expressed as forcibly as before 1939, and there was not much faith in the capacity of manufacturing industry to take up any slack. Indeed, the view of the Tariff Board was that the war would burden the economy with a further crop of inefficient industrial firms and that a major post-war task should be to rationalise manufacturing to eliminate many of them.

Another matter which had received attention in 1941 was population policy and immigration. The background facts were that since the late nineteenth century there had been a steady decline in the rate of natural population increase, and a pronounced fall in the nineteen thirties. Immigration had also fallen away and in the depression years was close to zero.

A small group of economists at the University of Sydney had drawn attention in the late nineteen thirties to what were regarded as alarming trends, but immigration was mainly a State responsibility and these prognostications made little initial impact on the Commonwealth Government. However, the defence implications of falling population growth sharpened the focus after the outbreak of war. A paper by the Department of the Interior, the responsible Commonwealth ministry, accorded immigration a high order of priority in reconstruction planning for the reasons that

> We must build up our population to the extent that we shall be able to defend ourselves, and also have a more balanced economy — especially from the point of view of our primary export industries.

Interior recognised the possibility of a conflict between the high employment objective and assisted immigration, but pointed out that there would probably be heavy and irresistible pressure on Australia to open her doors after the war, and urged an early policy decision.

The work of reconstruction committees had not proceeded beyond the exploratory stage when it was suspended by Pearl Harbour, and the threads were not gathered together until mid-1942 under very different circumstances. On the whole the deliberations of 1941 did not advance the subject much, and most meetings resulted in requests for more information and research. Employment policy was the only matter on which broad consensus was achieved. This is hardly surprising at such an early stage, and in any case the objective was merely to open up the subject. But the seminar style that was adopted was more successful in releasing hares in all directions than in helping to clarify issues. For, given the open spaces that were available, most departments and agencies were interested primarily in starting their own runners. This may have had some merit in 1941, but the preparation of detailed policies for government decision required a more coherent and independent organisation.

As outlined in the next section, active consideration of reconstruction was resumed in 1942 in the form of discussions designed to clarify Australia's attitude towards Article VII of the Mutual Aid Agreement. At about the same time moves were afoot within the public service to reconsider the organisational structure necessary for the more detailed planning that now seemed appropriate. Unfortunately the debate which led to the formation of a separate reconstruction department is not well documented, and the following paragraphs are based in part on inference.

A minority believed that scarce expert manpower should not be diverted from the war effort until the end of the war was clearly in sight. But the real argument was between those who supported a continuation of the collaborative style represented by the inter-departmental Committee on Reconstruction, and those who saw the need for greater authority and separate identity in the form of an independent agency. The former view was represented vigorously by the Department of Labour and National Service; the latter by a diverse group of would-be planners and ministers

who stressed the political attractions of focusing attention on post-war aspirations by means of separate incorporation. In evidence before the Social Security Committee in June 1942, Roland Wilson the Department's Secretary, advanced the Labour and National Service position:

> Whatever conception one has of reconstruction planning, it is clear that reconstruction is not a single subject in itself; it is concerned with the whole complex of social, economic and political arrangements of the community . . . it is not a matter which can be put into a separate compartment of government and passed over to a particular set of administrative agents for implementation. . . . Reconstruction must be a part of the policy of every Department and of every Government. Now and for a long time after the war, reconstruction and post-war government will mean very much the same thing.

The same argument was made the subject of a Full Cabinet agendum under Ward's name a few weeks later,[2] but the matter was referred for examination by a Cabinet sub-committee comprising Chifley, Evatt, Ward and E. J. Holloway.[3]

Despite the strength of the Labour and National Service arguments, the submission ignored the administrative convenience and political attractions of a specialist reconstruction department with its own identity. By the spring of 1942 opinion was firming in favour of a substantial enlargement of the Commonwealth's role in post-war economic and social development. In addition to the domestic full employment commitment, the Government's involvement in comprehensive international negotiations predicated greater monetary, trade and marketing control. Under the Commonwealth's auspices, specialist rural, housing and national works authorities were envisaged, while the Social Security Committee in its Fifth Interim Report of October 1942[4] supported reform of social services and recommended the appointment of a Minister with responsibility for reconstruction co-ordination. Evatt, who was urging the need for constitutional reform as early as August,[5] was sympathetic to the creation of a separate department to handle the large volume of legislation he envisaged.[6] In addition, Curtin and Chifley were quick to accept the political advantages of a specialist ministry of reconstruction which could act as a focus for post-war aspirations. Although the announcement of the new Ministry was delayed until the end of the year, there was no doubt that the views of Curtin, Chifley and Evatt would prevail. Curtin announced in December 1942 that he had appointed Chifley as Minister for Post-War Reconstruction; in January 1943 the Director of Rationing, H. C. Coombs, who had established a special relationship with Chifley, was appointed Director-

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[2] Full Cabinet Agendum 273; meeting 7 Jul 1942.

[3] In effect, the Treasury, Attorney-General's, Labour and National Service and Social Services. Rt Hon E. J. Holloway. MHR 1929-51; Asst Min for Industry 1931; Min for Health and Social Services 1941-42, Labour and National Service 1943-49. B. Hobart, Tas, 18 Apr 1875. Died 3 Dec 1967.

[4] *Parliamentary Paper* No. 88.

[5] Full Cabinet Meeting, 3 Aug 1942.

[6] Following his conversion during 1942 to the employment approach as the basis of Australia's international economic policy (see below), Evatt introduced the Constitutional Alteration (War Aims and Reconstruction) Bill in October 1942, a bill intended to enlarge the Commonwealth Parliament's power vis-à-vis the States. This bill was withdrawn, but more comprehensive proposals along the same lines were submitted unsuccessfully to the electorate—the fourteen powers referendum—in 1944. See Hasluck, *The Government and the People 1942-1945*, Ch. 8.

General of Post-War Reconstruction. However, the new department was not envisaged as the sole authority for post-war planning. As described later, an attempt was made to incorporate inter-departmental and inter-governmental collaboration into the structure of the department. Even though the extent of this fell well short of Roland Wilson's proposal, collaboration was of necessity an important (although often frustrating) element in drawing the blue print for a better life.

THE EMPLOYMENT APPROACH

Before the creation of the new ministry, however, the foundations of reconstruction policy had been laid, and it is necessary to return to the middle of 1942 for the commencement of serious discussion. In contrast with the leisurely approach of the Reconstruction Committee, there was a sense of urgency and direction in the new round, with a shift in emphasis from domestic to international considerations. The stimulus was provided by Article VII of the Mutual Aid Agreement which, as noted earlier, envisaged agreed action by the United States and the United Kingdom (open to participation by all countries of like mind) for the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods and the "elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers". In February the War Cabinet had indicated to the United Kingdom that the *progressive* elimination of Imperial preference need not stand in the way of acceptance of the Mutual Aid Agreement.[7] This was, however, merely an initial reaction, and to examine the position further an inter-departmental Committee on External Relations was appointed to examine the implications of ultimate Australian acceptance of Article VII. By the end of 1942 a distinctively Australian approach had been formulated by a small group of officials which provided the basis for both domestic reconstruction policy and international economic negotiations for the remainder of the war.

Under delegation from the inter-departmental Committee on External Relations, the economic content of the approach ultimately adopted was the work of the Financial and Economic Committee under the chairmanship of L. F. Giblin. Under the pressure of more urgent wartime business, the Financial and Economic Committee met far less frequently after Pearl Harbour than before. But Article VII was given high priority; indeed it was almost the only subject to receive serious consideration by the committee after the change of government.

To understand the reasons for the approach that was developed, it is more important than usual to appreciate the assumptions on which it was based. In 1942 the end of the war was still a very distant prospect and, even assuming that the war would be won, forecasting about the shape of the post-war world was hazardous. Understandably, therefore, the committee drew heavily on the experience of the nineteen thirties.

[7] War Cabinet Agendum 88/1942.

The first assumption, inherited from 1941 discussion, was that there would be after the war an irresistible political demand for the maintenance of a high and stable level of employment. What "high" or full employment meant quantitatively was as yet undefined, but most committee members probably had in mind an unemployment rate not exceeding five per cent of the work force. The personal commitment of members to high employment was probably even stronger than in 1941, for the full mobilisation of the war economy had demonstrated forcibly the capacity of government expenditure to eliminate unemployment. Further, the ranks of the public service had been swelled by the recruitment of a small but influential group of young economists imbued with a new teaching of Keynesian economics. For this group, and for most of their older colleagues, high employment was not only economically but also socially desirable: its achievement in peacetime would be the first and most important step towards the ideal of greater social equality. The political and psychological value of high employment as the foundation stone of reconstruction policy was therefore accepted without question.

The second assumption was that there would be no significant improvement in the balance of payments position. It was thought that Australia would end the war with very slender international reserves. A short-lived demand boom for primary commodities was anticipated, but it was expected that additional export income would be absorbed by a very heavy demand for imports. In 1942 the committee could not have foreseen the effect of American spending on external reserves. Nor could it have predicted the extent of world commodity shortage. The committee's gloomy view of the prospects for industrialisation and the capacity for import replacement of manufactures was influenced by the assumption that heavy across-the-board reductions in the tariff would result from Article VII negotiations. Prospects for overseas borrowing were expected to be poor, with creditor countries maintaining tight control of capital exports for an indefinite period. Thus, the view in 1942 was that heavy reliance on primary commodity exports would continue, the long-term world demand for these commodities would be stagnant, and Australia would again face periodic balance of payments crises.

It followed from these assumptions that the old problem of the conflict between internal and external balance would re-emerge: full employment was not likely to be compatible with balance of payments stability. Indeed, as the political commitment to high employment was likely to be irresistible, as there would probably be external pressure to reduce tariff protection, and as Imperial preference was likely to be eroded, it appeared that the problem of external imbalance would be as acute as before the war.

However, the analysis did not rest there. The gloomy prognosis was based on the implicit assumption that the international economy would revert to the norm of the inter-war years: a low level of trade in relation to production, high and discriminatory tariffs, severe exchange controls, and high levels of unemployment. Officials accepted that there were signs that the worst features of the nineteen thirties could be avoided after the

war, for the new internationalism represented by the Atlantic Charter and the Mutual Aid Agreement offered some hope for the future. In Australia's particular sphere of interest, bilateral trade negotiations with the United States since 1941 offered prospects of easier entry of wool onto the American market and, more important, greater tariff flexibility on the part of the United States. Further, preliminary discussions among major wheat exporting countries indicated a willingness to collaborate towards a solution to the problem of excessive stocks of grain. As viewed from Canberra, however, these developments by themselves were unlikely to cut the nexus between high unemployment and trade restrictions (especially the restrictions on imports of agricultural products). Even Keynes' proposed Clearing Union for the expansion of international liquidity, which was known in outline only in mid-1942, was not thought to attack the fundamental problem of short-fall in international demand. Only by the adoption of policies directed towards the maintenance of national income at the highest possible level in the advanced countries, particularly in the United States and the United Kingdom, would international demand be adequate. For simplicity and to avoid complications about the meaning of national income in different countries, full employment was used as the proxy for the situation likely to generate the greatest demand for trade goods. Thus, the committee argued that Australia's international economic policy should be directed towards encouraging the industrialised countries to commit themselves to domestic policies of high and stable employment.

This summary does not take account, however, of the development in the ideas of the officials taking part in the discussions. The conclusion that Australia should press for an international policy of full employment, and that this be made a precondition for acceptance of any Article VII agreement, was not reached rapidly or without detailed consideration of the alternatives. The policy prescription which became the distinctive Australian posture in international negotiations emerged in its proximate final form at the beginning of 1943 after six months of intensive discussion and the circulation of innumerable drafts. It will be useful therefore to outline a number of additional factors responsible for the development of the "employment approach".

The emphasis in the early papers of the Financial and Economic Committee was on the problem of combining internal and external balance. It seemed that if expansionary monetary policies were used to eliminate unemployment, wartime use of import restrictions and exchange controls would need to be extended indefinitely after the war as a supplement to the established protective tariff. However, it was thought that employment-creation in manufacturing industries dependent on heavy protection would lead to a lowering of living standards even though resources would be fully utilised. The committee thought that there was no prospect of developing manufacturing industries which could hope to compete in world markets. In short, employment expansion would

necessarily involve growing industrial inefficiency at the margin and regression in the level of average real income. With hindsight it is easy to ridicule the extreme pessimism of this forecast, but for present purposes it is important to appreciate that this interim conclusion, which was based on the supposition that post-war economic collaboration would not be successful, led to rejection of industrialisation as the sole solution of the employment problem. Rather the committee urged adoption of a mixed policy of selective industrial development combined with expansion of traditional export industries. Thus, Australia's response to Article VII negotiations should be to encourage active international collaboration to assist the expansion of world trade and the demand for primary products. In addition, the Article VII agenda paper should include means for providing long-term loans for underdeveloped countries (including Australia),[8] and short-term credit facilities for balance of payments adjustment. At this stage, July 1942, there was no suggestion that the negotiating posture should be more elaborate than this.

By the end of the year the emphasis had changed markedly. In the interim, details of the proposed Clearing Union had been revealed to the Dominions in London, proposals had been submitted for the stabilisation of primary commodity prices, and specific Article VII discussions had commenced. Rather than fostering optimism, these events spread further gloom. Detailed aspects of the proposals were welcomed, particularly the expansionary nature of the Clearing Union, but the broad approach to the challenges of Article VII was thought to be insufficiently comprehensive, heavily weighted in favour of the interests of the North Atlantic economies, and unlikely to achieve improved living standards. A memorandum by L. G. Melville[9] in February 1943 articulated the committee's doubts: the Clearing Union and the tariff negotiations were an attempt to return to the "liberal internationalism" of the nineteenth century which was inconsistent with full employment and rising living standards on an international scale. Failure to recognise this incompatibility was in Melville's view the reason for the collapse of pre-war attempts to patch up the world's economic ills. The memorandum continued, by implication, that trade liberalisation would involve a redistribution of international resources in such a way as to preclude full and stable employment in all areas; primary exporting countries might benefit in terms of real income but not in employment stability. The conclusion:

> it is essential that an unequivocal agreement to maintain full employment and minimum living standards should be part of any international undertaking we make today. Even if we believe it will not be accepted by others it should be pressed for by Australia so that Australia will not be pilloried in the United

[8] During the war as well as in the post-war period, it was customary to alter the description of Australia's stage of development to suit the negotiating needs of the moment. Thus, "underdeveloped" or "developing" were used, for example, to support arguments in favour of the retention of a high level of tariff protection, while relatively "advanced" was employed to claim representation at high level international discussions. See also H. W. Arndt, "Australia—Developed, Developing or Midway", *Economic Record*, Vol. 41 (Sep 1965).

[9] Sir Leslie Melville, KBE. Prof of Econ Univ of Adelaide 1929-31; Econ Adviser C'wealth Bk 1931-50; Asst Gov (Cent Bkg) C'wealth Bk 1950-53; Vice-Chanc Aust Nat Univ 1953-60; Chmn Aus Tariff Bd 1960-63; Mbr Devel Advis Serv Internat Bk 1963-65; Chmn C'wealth Grants Commn from 1966. B. Marsfield NSW 26 Mar 1902.

States and the United Kingdom for refusing to sacrifice on the altar of liberal international economics the industries she has built up during the war or for accepting obligations under the Clearing Union she may not honour. Division over full employment and division over tariff and monetary policy are the two alternatives of which the first is healthier. . . .

. . . the reduction of tariffs and the Clearing Union are of minor importance to the welfare of nations. The channels of trade, even if obstructed, will continue to operate if full employment and minimum standards are maintained. The loss of welfare resulting from barriers to trade is not nearly as great as that from the instability which appears to be the inevitable accompaniment of liberal internationalism which the Clearing Union and tariff negotiations seek to restore. We believe that the worst barriers to trade will be removed only as a by-product of the actual achievement of full employment and minimum standards. It is futile to make agreements about the symptoms while the cause still exists.

Whatever agreements are signed, Australia will not abandon the industries established during the war until she can see some other way of making use of the resources set free. She may as well recognise that and have done with the pretence of the sterile issues of international conferences.

The tone might not have been endorsed by all the officials involved, but the sentiment was shared by such influential men as Giblin and Coombs. Even allowing for the black mood of the time and the failure of international collaboration in the nineteen thirties, the cynicism and fatalism is striking. Faith in the full employment doctrine was genuine, indeed to the point of naivety. It will have been noted, however, that promotion of a full employment agreement was designed in part to provide Australia with an escape clause: a way of avoiding wholesale tariff reduction and any obligation to surrender control of the exchange rate. For it was accepted at the outset that the United States was unlikely to accept the degree of interference in its domestic policy implied by the full employment charter. At best the doctrine would generate salutary propaganda and at worst help to safeguard national independence.

This amalgam of humanitarianism and national self-interest was an extension of policies advocated since 1935. In response to the extreme agricultural protectionism of the 'thirties and improvements in the scientific knowledge of nutrition, the High Commissioner in London, Bruce, and his economic adviser, F. L. McDougall,[1] had advocated the so-called "nutrition approach" to the adjustment of agricultural policies. In substance, a reallocation of food production was proposed on the basis of comparative advantage (and for the benefit of trade in foodstuffs) so as to improve dietary balance. Foods were classified, broadly, into two groups—"protective" and "energy". Protective foods were those which did not normally enter into international trade in large volume, notably dairy products, fruit, vegetables, eggs and fresh meat. Energy foods were primarily cereals. In those countries producing energy foods uneconomically, a switch to the production of protective foods was proposed combined with a simultaneous increase in importation of cereals. Exporters

[1] F. L. McDougall, CMG. Sometime fruit farmer, Renmark, SA; Adviser at Imp Conf 1923 and subseq confs includg Ottaway 1932; Econ Adviser to High Comm in UK and to Aust Govt. B. UK 1884. Died 1958.

of energy foods would in return increase their demand for the products of food importers. Action by governments to popularise nutritional standards was also an essential part of the approach, supported by an international food commission affiliated to the League of Nations.

The approach had made some impact before the war, although the growing interest in nutrition was based on much broader considerations than those advanced by Australia. In 1936 the League published a four volume interim report on the relationships between food, health and agriculture, and in the years immediately before the war twenty-five countries set up national nutritional committees to conduct surveys and recommend action. Little was in fact accomplished, but the matter continued to be of concern during the war and played a part in the formation of the Food and Agriculture Organisation in 1943-44. Of more immediate interest, however, was the connection between the nutrition and employment approaches. Both were concerned with the promotion of international collaboration to extend world demand for, and reduce trade barriers against, primary products; both were motivated by the need to solve Australian balance of payments problems. Indeed, in one sense the employment approach was a generalisation of the nutrition approach. But there existed a conflict between the two: the latter envisaged an unqualified return to late nineteenth-century international specialisation based on the unrestricted exchange of primary products for manufactures; in 1942 official economists rejected liberal internationalism as a basis for post-war planning. However, this does not mean that the philosophy of the nutrition approach was overturned: both were used as the occasion required. It is impossible to understand Australia's position unless it is understood that the negotiators wore two hats: one represented the country's industrial aspirations, the other the continuing importance of traditional export industries.

The official version of the employment approach was not sanctioned by Cabinet until January 1944,[2] but was of necessity used by Evatt and other official representatives through most of 1943 as the pace of Article VII negotiations quickened. The formulation, prepared at the beginning of 1943 for eventual presentation to Cabinet, emphasised the need to redirect international negotiations towards the "positive" aspects of Article VII. The Government was urged to interpret Article VII as

> primarily *an agreement between countries to collaborate in the raising of living standards*. Other matters about which the parties agreed to collaborate are subsidiary to that prime aim and set out merely some of the ways in which the maximum increase of living standards can be achieved.
>
> The raising of living standards is primarily a matter of domestic policy, though external trade has an important bearing on it. Domestic policy is of paramount importance because, while our own domestic policy is the main weapon for raising living standards, unless other countries pursue a domestic policy directed to the same end, we shall have difficulty in maintaining our own domestic policy and shall lose a good deal of the help which we could get from international trade,

[2] Full Cabinet Meeting, 24 Jan 1944.

which for Australia is very important. It follows that domestic policy is not merely a matter of domestic concern, but vitally affects all the nations who have agreed to make a united effort to raise living standards. There should, then, be some sort of agreement about domestic policy as a foundation for all other measures to raise living standards.[3]

The committee continued that the most important element in any agreement should be an obligation to maintain full employment, and that it should also include an undertaking to maintain minimum standards of nutrition, clothing, housing; provide for the relief of unemployment, sickness and old age; and promote equality of educational opportunity. These were precisely the ingredients capable of exciting Evatt's idealism and receiving Cabinet approval. The more cynical elements in the platform were not given formal airing.

Initially not much attention was given to the practical details of the proposed employment agreement or to the diplomatic strategy required to secure its acceptance, but during 1943 these matters received some consideration.

The form of agreement envisaged was a general declaration by the United Nations in favour of the pursuit of the full employment objective, and that this be made binding on all major economic powers. The declaration, it was believed, should be tied closely to agreements on monetary, commodity and commercial reform, for the latter could only succeed in an economic environment of rising living standards and high employment.

How would such an agreement work in practice? What form of international machinery was required? How was an acceptable level of employment to be defined? Advanced countries might agree on the importance of full employment, but would countries like India and China have the same priority? And, most important, how would resistance be overcome to external interference in such a sensitive area of domestic policy? The answers to these important questions were either ambivalent or inconclusive. It was accepted that an international authority of some description needed to be established, but there was uncertainty as to whether it should be within the general ambit of the International Labour Organisation or a separate body such as a supreme economic council. The I.L.O. had the experience and technical expertise in the field of labour, but was more concerned with industrial and social conditions than with broader economic issues. A separate economic council would be preferable in principle, but might be dominated by diplomats and relegated to the "mists of Geneva". What was on balance preferred was a comparatively modest secretariat, linked to the I.L.O., for the purpose of receiving statistics and reports on the level of unemployment in signatory countries and making the information widely available. Annual conferences on employment levels would be held, supplemented by a special conference if

the level of unemployment in any country represents a serious failure on the part of the government of that country to observe the responsibilities herein declared . . ., for the purpose of examining and reporting upon possible national and inter-

[3] Financial and Economic Committee Memorandum 36as, 19 Jan 1943. (Italics in original.)

national measures to restore the level of employment and to prevent the spread of unemployment to other countries.

In the event of gross failure to maintain employment, sanctions could be considered at a last resort. But the main task of the proposed organisation was to represent the direct responsibility of one government to another: moral suasion was to be the principal device for achieving collaboration.

Understandably not much progress was made in defining an "acceptable" level of unemployment, or in overcoming the formidable problem of measurement. One way of overcoming differing levels of acceptability was to set unemployment "quotas" for each country which would take into account differing stages of development, political organisation, and short-term fluctuations caused by seasonal and other factors. Irrespective of problems of definition and measurement, the Financial and Economic Committee believed that the statistical service of I.L.O. could be used to construct indexes of unemployment for the purpose of setting "quotas". This was plainly a gross oversimplification and no attempt was made to elaborate but, as noted above, the proposal was not expected to proceed beyond the plenary stage.

In November 1943, when the terms of proposed agreement were drafted, there was no clear idea of how international acceptance could be secured. Partly on Australia's initiative, discussions were already in progress between the United States and United Kingdom about the "co-ordination of full employment policies", although nothing was known about the details. The Department of Post-War Reconstruction would have preferred a fully-fledged United Nations conference on employment as soon as possible, but as technical negotiation had been initiated there was a danger that if a conference was held too soon proceedings would be hopelessly side-tracked into technical matters. As Australia's objective was to achieve unqualified acceptance of a full employment declaration, it was believed that a conference should be deferred until the technical details had been settled. In the meantime, however, every opportunity was to be taken to present the country's point of view.[4]

AUSTRALIA AND ARTICLE VII: THE DEFENCE

It is necessary now to retrace our steps to 1942 and the beginning of international discussions of Article VII. At ministerial and official level Australia kept in close touch with the Anglo-American negotiations, and the employment doctrine that emerged was in part a defensive reaction to the complicated twists and turns of these discussions. Proceedings were of course dominated by the United States and the United Kingdom, and the influence of most other countries was fairly small. But Australia used the opportunities that were presented to gain international representation and to present her particular viewpoint whenever possible. In this she was

[4] This outline is based on Financial and Economic Committee Memorandum 36bd, 15 Nov 1943, prepared by Post-War Reconstruction. An abbreviated version was incorporated in Full Cabinet Agendum 594, Appendix A.

aided by special relationships with both the United Kingdom and the United States. For the British Government found it expedient on occasions to involve the Dominions in the preparation of plans for presentation to the United States: Dominion support could help to mitigate her inferior negotiating position. In the early stages most of the British plans were submitted to conferences attended by Australia, Canada, India, New Zealand and South Africa before they were made public. Contact with the Americans was less developed and—as with Lend-Lease—Australia was seriously handicapped by inadequate staffing in Washington. Even so, discussions with the United States Administration at official level enabled Canberra to be kept in touch with American thinking and on occasions to have some influence.

It was established from the outset that Article VII would involve negotiations over the whole field of international economic relations. In addition to trade policy and the elimination of discrimination, items to be considered included monetary management, special problems of primary commodities, international investment, the control of cartels, and post-war relief and rehabilitation. At no stage, however, was a schedule agreed for the consideration of these subjects: individual topics were pursued in a haphazard fashion according to fluctuations in political acceptability. The most potent factors in timing were the spacing of American elections and judgment about the temper of Congress. Officials in Canberra complained continually about the absence of a general framework, but in the nature of international negotiations progress was more likely to be achieved at the individual and technical level. If particular proposals had been dependent on agreement about general principles, real progress could have been jeopardised.

Australian involvement was initiated at a conference of United Kingdom and Dominion officials in London in October-November 1942. The meeting was not given publicity, and was without commitment. It was held to allow the United Kingdom to obtain Dominion reaction to British plans for a Clearing Union and for the control of primary product prices. The meeting had been called hurriedly and without preliminary circulation of documents because the Americans preferred to defer discussions with the British until after the congressional elections of November 1942. Roland Wilson represented Australia.

The version of Keynes' *Proposals for an International Clearing Union* which was unveiled to the Dominions was the fifth draft which had been submitted to United States Secretary of the Treasury Morgenthau the previous August.[5] Only the skeleton of the scheme will be outlined here, with emphasis on those features which attracted the attention of Australian officials. The broad objective of the Clearing Union was to assist the expansion of international trade by adding to the volume of international liquidity and by easing the adjustment of debit and credit balances

[5] For further details of the Keynes and White plans, see J. Keith Horsefield, *The International Monetary Fund 1945-1965: Twenty Years of International Monetary Co-operation* (1969), Vols. I and III.

through the creation of a super-national central bank. The plan was formulated with an eye on the serious trade difficulties expected to be experienced by the United Kingdom after the war, and thus placed emphasis on the need for international monetary expansion, the imposition of penalties on both debtor and creditor balances, and the need for a comparatively long transitional period. The Clearing Union was to act as a central bank for central banks on ordinary banking principles, but an initial subscription would not be involved. Instead, each member country would be allocated a quota in proportion to its importance in international trade which would be expressed in terms of a new international currency unit—bancor—which would be defined in terms of gold. Member countries could obtain bancor in exchange for gold, but bancor was not convertible in the other direction. Existing international reserves of gold and foreign exchange would be allowed to coexist with bancor, but countries were to be encouraged to transfer progressively their reserves to the Clearing Union.

Keynes envisaged that all or most countries would join the Union so that, broadly, debit and credit balances would cancel out. So long as large creditor nations retained their membership, there was no risk of the Union exhausting its resources. The main problem, then, was one of adjustment of debits and credits, and from a political point of view these were the most difficult provisions to draft. In an ideal world debit and credit balances should be kept to a minimum; the objective was to devise a penalty on the accumulation of large credit balances which would discourage such accumulations and at the same time encourage creditor nations to join the Union. Keynes' solution was to charge interest on both debit and credit balances at a rate of one per cent on balances over one-quarter and up to one-half of quota, and an additional one per cent on balances in excess of one-half of quota. So as not to be too savage on creditors, the charge could be avoided by means of direct loans to debtors. The right to an overdraft was not to be taken as a substitute, however, for internal corrective action. If a debit balance exceeded one-half of quota, the Governing Board was empowered to require either or all of (a) devaluation by a certain amount, (b) control of outward capital movements, and (c) surrender of portion of international reserves to be applied in reduction of the debit. If the position continued to deteriorate over a further two years, the Governing Board might declare the member in default and withhold drawing rights.

In addition to the penalties on large credit balances, Australians were particularly concerned about the provisions for altering the rate of exchange. Initially these were to be fixed in terms of bancor, although special concessions were to be granted during the transition (estimated by Keynes to require five years). Thereafter a maximum variation of five per cent per annum was to be permitted (with the consent of the Governing Board) when debit balances exceeded one-quarter of quota; the variation could be greater if the debit balance exceeded one-half of quota. Keynes' objective was to allow some movement in rates where

appropriate, but to avoid the excessive and retaliatory fluctuations of the 'thirties.

The small group of Australian officials who were made aware of the plan generally approved the details. The addition to international reserves through the creation of bancor was regarded as the most attractive feature, and the fact that joining the Union would not involve sacrifice of existing assets. Even though membership of the Union would involve some surrender of sovereignty, mainly in terms of the rate of exchange, Australian interests were thought to be safeguarded.

The proposals for disciplining creditor nations were the subject of the greatest critical comment. Since Australia expected to continue as a large debtor, the Financial and Economic Committee believed that far greater pressure should be placed on persistent accumulators of bancor credit. For it was believed, fairly enough, that pre-war disruption had been caused as much by the accumulation of excessive credit balances as by excessive debits. But, as Wilson cabled from London, Keynes in drafting his plan had bent over backwards to make it acceptable to large creditors (mainly the United States). The scheme would fail without the participation of these countries and there would be difficulty enough in persuading the Americans to accept any charge on credit balances. The political point was taken, but there was lingering Australian dissatisfaction with the "lenient" treatment of creditors. This encouraged the Financial and Economic Committee to fly its kite—the employment doctrine—before the string had been attached. On the reasoning that it was more important to avoid the accumulation of balances than to penalise credits once accumulated, the committee suggested that the Clearing Union document should include a full employment undertaking. The proposition was that if full employment was maintained by creditors, balances were less likely to accumulate.[6] But on Chifley's instructions the proposal was not advocated explicitly at this stage. Instead, Wilson suggested on behalf of Australia that the Clearing Union plan should be set in the context of broad post-war economic objectives, and related explicitly to other equally important schemes to promote international investment, control commodity prices, reduce trade barriers, and provide rehabilitation relief. Partly as a result, Keynes inserted a preface along these lines in the version published as a white paper in April 1943.[7] A separate section amplifying the obligation of creditor countries was also inserted, but additional penalties on creditors were not imposed.[8]

Australian officials were on more familiar terrain with the second set of British proposals for the stabilisation of primary product prices and output. This directly affected Australian interests, and since the war of

[6] Not all members of the committee were convinced that domestic full employment in creditor countries would guard against the accumulation of large credit balances. Melville argued, for example, that full employment was not inconsistent with a persistent trade surplus and that full employment, while desirable, did not provide an automatic solution.

[7] The preface was also the result of deficiencies detected in the Stabilisation Fund proposals of H. D. White, Assistant to the United States Secretary of the Treasury.

[8] See Horsefield, *The International Monetary Fund*, Vol. III, pp. 25-6.

1914-18 there had been extensive and often bitter experience of various marketing schemes. There had also been direct involvement since 1941 in an attempt to negotiate an international wheat agreement which had demonstrated the political and technical complexity of international commodity control.

The British scheme for the regulation of trade in primary products was more comprehensive in scope and was intended to be applicable to all major commodities. But unlike the Clearing Union it had not received the formal approval of the United Kingdom Government and was presented in an incomplete form. As the British representatives made clear from the outset, the proposals would need to be supplemented by measures to deal with labour standards and the standard of life generally of primary producers. Further, explicitly omitted from the agenda were questions of domestic subsidies and price-fixing arrangements, and the British made quite clear that they were not prepared to negotiate abolition or reduction of their own subsidies on agricultural production in the event of agreement on the imposition of export quotas. This was a serious obstacle: an important reason for the collapse of food prices between the wars and been the growth of European agricultural protection.

The broad intention of the scheme was to stabilise commodity prices and the export incomes of producing countries. British advocacy was based on a hard-headed appraisal of self-interest. The savage pre-war deterioration in the terms of trade of primary producers, among whom the Dominions were well represented, had eroded British export markets for industrial goods. If the United Kingdom was to recover export markets after the war and to withstand the dismantling of Imperial preference, she had a special interest in the economic welfare of primary producing countries in general and the Dominions in particular.

At the technical level two interrelated objectives were outlined by Keynes: the avoidance of excessive price fluctuations about a long-term equilibrium trend; and the maintenance of long-term equilibrium between supply and demand at prices which provided primary producers with reasonable living standards consistent with the standards of their country. Buffer stocks were to be used to attain the first objective, and restriction or regulation of output in appropriate cases the second. The buffer stock component was, however, the essential part of the scheme, and the British view was that quota restrictions should be avoided at the outset. If they were needed later they should be used to help the transition from one producing area to another, or to smooth the adjustment to a lower level of output. Quotas should not become a permanent feature, for this would be symptomatic of misdirected production and restrict capacity to adapt to long-term changes in demand and technology. The buffer stock scheme provided for the accumulation of stocks in each of the major producing countries sufficient to stabilise prices to within a twenty per cent band over a year. As a general rule, commodity control authorities were to be set up within the framework of a general council and were to intervene in the market if prices moved by more than ten per cent in either

direction from the price as agreed by producer and consumer representatives. Annual or more frequent adjustment of the agreed price should be made in the light of changes in stocks and export market forecasts. There was no attempt in the scheme to limit the extent of agreed price adjustment except during a world depression (as defined by suitable indicators) when the downward revision was limited to five per cent per annum. At other times an annual adjustment of two per cent would be regarded as a highly successful result. There were various possibilities for financing buffer stocks, including the use of bancor overdrafts.

While the Dominions were in sympathy with the objectives, there was stringent criticism of the exclusion of domestic agricultural policies. It appeared that very little real progress could be achieved unless the Europeans were willing to negotiate their agricultural tariffs and subsidies. India with her old grievances was the most intransigent and believed that primary product regulation needed to be supplemented by control of industrial monopolies. Australia was prepared to support any scheme that might avert the disasters of the nineteen thirties but was sceptical that a single framework, however flexible, could handle the complex problems of commodities with widely differing market characteristics. Australia and most other Dominions urged a separate arrangement for each product. Other matters such as the determination of the agreed (or basic) price, allocation of stocks in the event of scarcity, the relationship between the agreed price and the use of quotas, and membership of the general council, required further study. In short, the British were encouraged to believe that they were on the right track but only if the principles were adapted to particular situations and only if greater emphasis was given to the nutrition approach.

Two matters were raised briefly at the London talks: the principles to be adopted in the all-important trade negotiations with the United States, and the proposed establishment of a United Nations Relief and Rehabilitation Administration (normally known as U.N.R.R.A.). The United Kingdom had not made much progress in formulating its own ideas about the first subject, and it had no considered plan to place before the Dominions. Opinion within Britain itself was divided as to the best line of approach. At one extreme the view of agricultural and a number of large industrial interests was that the United Kingdom should work towards self-sufficiency in food production and seek export markets for manufactures by means of a series of bilateral trade and exchange agreements. At the other extreme, an influential group within the United Kingdom Government preferred a bold world-wide reduction in trade barriers. Most of the Dominions urged a large across-the-board multilateral reduction in tariffs but with an escape clause for those countries with realistic industrial aspirations. Unlike the United Kingdom, few of the Dominions thought that Imperial preference was indispensable so long as there was a genuine all-round reduction in tariffs coupled with the adoption of expansionary policies. Roland Wilson made a special point of emphasising in this context that tariff reduction and international mone-

tary reform would achieve little unless the objectives of Article VII were accorded the highest priority. Uncertain of its own policy, Britain reacted defensively. Keynes pointed out that as the British tariff was comparatively low and his Government had very little to bargain with besides Imperial preference, he was sceptical of the suggestion that the United Kingdom should propose a universal maximum *ad valorem* tariff of twenty-five per cent. As far as the Dominions were concerned, the subject concluded on the note that the United Kingdom Government should make a bold multilateral proposal to the United States rather than delay and allow the Americans to dictate the rules of the game.

By contrast, the proposal to enlarge the Inter-Allied Committee on European Post-War Relief (established in London in September 1941) by the creation of U.N.R.R.A. on the basis of an Anglo-American draft had already solidified, and the Dominions were called on merely to express their support. The purpose of U.N.R.R.A. was to arrange for "the relief of victims of war in any area under the control of the United Nations through the provision of food, fuel, clothing and other basic necessities, housing facilties, medical and other essential services" by means of contributions in cash and kind from each member country "within the limits of its available resources". The issue was non-contentious and discussion in London centred on the size of the policy committee. The draft provided for a membership of four, drawn from China, the Soviet Union, the United States and the United Kingdom, but there was a strong case for an enlargement to seven to enable Canada to be included. The draft also noted the desirability of creating European and Far Eastern regional committees, and Australia's main interest was to secure membership of the latter. While Canberra continued to recognise the importance of the proposed administration through to its formation in 1944, the Government's active interest was limited to questions of membership, financial contribution, and the disposal of commodities.[9]

While the family meeting in London had succeeded in gaining Dominion support in principle for most of the British proposals, no clear idea emerged about the overall strategy for Article VII negotiations with the United States. What had become evident to Australian officials was that the United Kingdom placed primary emphasis on a solution to international monetary difficulties, and that the Clearing Union plan would be pushed to the fore. The Clearing Union was the most advanced of the proposals (with the possible exception of U.N.R.R.A.) and the British regarded monetary reform as a precondition for the modification of Imperial preference. The primacy of monetary reform was consolidated

[9] Sir Owen Dixon represented Australia at the first session of U.N.R.R.A. at Atlantic City in Nov 1943. It was proposed that members contribute a total of $US100,000,000 to administrative expenses of which Australia's share would be 1.5 per cent (about £47,000), and that each member whose territory had not been devastated by war contribute about one per cent of its 1942-43 national income for relief purposes, of which 10 per cent to be in foreign currency and 90 per cent in local currency. In formalising its membership of the organisation through the *United Nations Relief and Rehabilitation Administration Act* (No. 40 of 1944), the Government accepted its share of administrative expenses and authorised a total of £12,000,000 for relief purposes. However, the local currency component of relief was only to be made available in the light of availability of domestic supply; requests were to be considered in conjunction with existing commitments by the Export Committee (see Chapter 24). Full Cabinet Agendum 695; meetings 14 and 19 Jul 1944.

at the beginning of 1943 when the United States Treasury released its alternative to the Clearing Union, H. D. White's plan for an International Stabilisation Fund. When details of the Fund were made available in Canberra in February 1943, Australia intensified its objection to specific proposals which made no reference to the higher objectives of Article VII.

Although the Stabilisation Fund scheme was communicated to Australia and others well after the Clearing Union, White's first consolidated draft had in fact been sent to the United Kingdom as early as April 1942. But there is no evidence that its existence was mentioned in London in October-November. If the American plan had been revealed (it was probably withheld on instructions from Washington), reaction to the Clearing Union would have been quite different.

While the Stabilisation Fund had features in common with the Clearing Union, it lacked the clarity and logical symmetry of Keynes' draft and was based on a quite different diagnosis of the world's monetary ills. The American premise was that exchange rate instability had been one of the major causes of economic malaise in the nineteen thirties, and accordingly that any programme of reform should stress exchange stability. This reflected American antagonism towards exchange control, devaluation, and other devices which most countries had been forced to impose for self-preservation against the United States dollar. The Clearing Union also envisaged fairly stable exchange rates, but for Keynes the expansion of liquidity was much more important; for White additional liquidity was incidental, and would be brought about mainly—and on a limited scale—by the release of blocked balances. The Stabilisation Fund was based on the contributory rather than the banking principle. A fund of about $US5 billion was envisaged contributed in gold, government securities, and the currencies of member countries on the basis of a complicated and (in the early drafts) a largely unspecified formula. There was considerable variation over successive drafts in the amount of foreign currency that a member could purchase from the Fund, but in July 1943 White proposed to permit 100 per cent drawing of quota in the first year and 150 per cent in the second. Exchange rates could be varied only to correct fundamental balance of payments disequilibrium and then only with the consent of four-fifths of members' votes. Further, members were obligated to abandon within a year of joining the Fund all exchange controls against other members except with the approval of the Board. On the other hand, there was no mention of any disciplinary action to be taken against persistent accumulators of credit balances. The voting arrangements were that each member was allocated 100 votes plus one vote for each million dollars of contribution, an allocation which on the initial reckoning would have allowed the United States with the support of Latin American countries to dominate the Fund.[1]

Linked with the Stabilisation Fund was a proposal for the formation of a Bank for Reconstruction and Development to encourage "private

[1] For the April 1942 and July 1943 drafts of the Stabilisation Fund, see Horsefield, *International Monetary Fund*, Vol. III, pp. 37-82.

financial agencies to provide long-term capital for the sound development of the productive resources of member countries" and when necessary "co-operate with and supplement private capital for such purposes". The suggested capital of the Bank was $US10 billion with an initial subscription of twenty per cent to be paid in gold and the currencies of member countries, the currency proportion to be replaced by gold over a period. While the emphasis was on the provision of long-term capital, there was no intention that the Bank should become a vehicle for "soft" loans. White's draft made the point plainly:

> The decisions of the Bank will be based exclusively on economic considerations. In passing upon any application to guarantee, participate in, or make a loan, the Bank shall give consideration to the soundness of the investment project or programme, to the budgetary position of the member Government guaranteeing the loan, and to the prospective balance of payments of the member country.

In addition, the Bank was to be "compensated for the risk it assumes" and principal and interest were to be paid in "free" currencies (with some modification in the event of "acute exchange stringency").

The Australian reaction to the Stabilisation Fund was almost totally unfavourable. The Treasury and the Financial and Economic Committee assessment of March 1943 was that the Fund offered far less than the Union and was much more restrictive. The arithmetic was that Australia could end the war with international reserves of about £120,000,000 sterling under the Union, but only £40,000,000 sterling under the Fund. If the latter estimate proved to be reasonably accurate, the restrictions on exchange rate movements were regarded as unacceptable. So, too, was the absence of restrictions on creditors, and the potential domination of the Fund by the United States. In Giblin's view, the Fund's emphasis on gold contributions and the definition of exchange parities in terms of gold was tantamount to a return to the gold standard. In these circumstances it appeared preferable to continue to rely on the established London Funds mechanism.[2] It was thought that the Fund might confer some advantage in unfreezing blocked balances, but for this purpose and for its other functions $US5 billion would be inadequate. In September 1943 when all the implications had been fully explored, the Financial and Economic Committee distilled Australian fears to their essence:

> [On the assumption that Australia joined the Fund and was faced subsequently with a serious balance of payments disequilibrium,] Australia would have to try to cure it by severe internal deflation. This might be avoided with the permission of the Board, but it seems unlikely that the Board would ever give Australia permission to take the necessary action (devaluation and/or the imposition of exchange control), particularly since a three-fourths[3] majority is necessary. . . . If we decide to withdraw from the Fund, it would be one year before our notice of withdrawal would become effective. In these circumstances, it would be impracticable for

[2] Since the mid-nineteenth century a remarkably high degree of exchange stability had been achieved by the banking system through a close gearing of domestic credit policies to the volume of currency reserves held in London (London Funds). The mechanism had broken down temporarily in the early nineteen thirties, but at other times had succeeded in lessening the impact of overseas disturbances on Australia.

[3] The voting majority required for an alteration in the exchange rate had been reduced from 80 to 75 per cent by mid-1943.

> Australia to take action intended to prevent mass unemployment when the post-war boom recedes or to adopt measures of social security on the scale now under discussion unless our overseas trade is unexpectedly favourable. Sooner or later, mass unemployment would seem to be inevitable in Australia if we become a member of the Stabilisation Fund, unless the major countries of the world adopt domestic policies to prevent the development of unemployment overseas.[4]

One important consequence of the assesment was that it reinforced the determination of officials to canvass their employment approach at every available opportunity. Coombs was anxious to do so immediately, but was restrained because of the continuing absence of Cabinet authority. At the diplomatic level, therefore, a general reaction only was reported with the addition that important modifications were necessary before Australia could become a member.

Events moved more rapidly in several directions from March 1943. Following distribution of the Fund plan at government level (both plans were made public in April), the United States invited governments to discuss the details in Washington. At the same time Roosevelt issued an unexpected invitation to the Allies to participate in a preliminary conference on post-war food and agriculture to be held as soon as possible in the United States. His initiative came as a surprise because it appeared to be outside the mainstream of American thinking on post-war problems, and it was soon evident that United States officials had given little thought to the issues. Irrespective of the lack of preparation, Roosevelt's motive was to make a well-publicised move within the ambit of Article VII on what was generally regarded as a fundamental post-war problem. The United Kingdom also proposed a further meeting with the Dominions for mid-year on commercial policy. Canberra was distinctly unenthusiastic about the prospect of an early start to multilateral trade negotiations, fearing that the promising bilateral deal with the United States would be thrown into the melting pot. But as other Dominions had accepted the invitation Australia had no alternative other than to participate.

The tightly-packed schedule of conferences and meetings strained diplomatic and expert resources to the full. In the report on his 1942 overseas mission, Roland Wilson had made a point of remarking on the high quality of the British representatives and the importance of adequate preparation for such meetings backed by full technical support on the spot. With his academic and administrative background in the field of international economics, Wilson was usually well qualified to represent the country at this level. There were few others with similar experience, and such men were already heavily involved in domestic wartime tasks. Nevertheless, a strong team was assembled for the overseas mission of 1943. The Prime Minister announced that the Minister for External Affairs would make his second overseas trip with a general brief to represent Australia at the highest level. In addition, a team of experts

[4] Financial and Economic Committee Memorandum 36bb, 29 Sep 1943.

was appointed under the leadership of the Director-General of Post-War Reconstruction to keep in close touch with Evatt and to be responsible for the detailed negotiations.[5]

Most of the time and intellectual energy of the delegation was occupied with the Stabilisation Fund proposal. From the voluminous telegrams that passed between Canberra and Washington it is clear that a solid case was presented for a drastic revision of the draft which would have amounted to American acceptance of the substance of the Clearing Union. Initially it appears that the delegation accepted at face value White's assurance that the plan was put forward as a basis for discussion. The Australians soon found, as the British had before them, that four basic features were non-negotiable. As outlined by White, these were: (1) the Fund must be contributory in character; (2) there must be a specific limit to the financial liability of the United States; (3) prior agreement must be achieved about the rates of exchange at which major countries entered the scheme; and (4) the distribution of voting power must be in reasonable proportion to the scale of contributions. There were also other matters on which the United States would give no ground. It was extremely sensitive to any suggestion for the imposition of penalties on creditors, diverting any argument with the assertion either that incentives would be used to encourage the expansion of imports or that penalties would be unacceptable to Congress. Coombs pressed vigorously on a number of occasions, as had Evatt at the opening of the discussions, for the incorporation of a full employment undertaking in the document. The Australians believed that the point was to be considered seriously, but it was plain from the outset that in the eyes of the United States Administration the proposal smacked of socialism and that the implied interference in domestic policy was politically unacceptable. From the Australian point of view, the only matters on which White had shown a sufficient degree of flexibility were the size of the Fund and the extent of exchange rate variations after establishment. There appeared to be a real possibility that the aggregate quota could be lifted from the suggested $US5 billion to nearer $US10 billion, and that exchange rates would be allowed to move within wider limits and on a smaller proportion of votes than 75 per cent. There also appeared to be no rigid objection to the continuation of sterling area arrangements, or to Australia maintaining portion of her reserves in London Funds.

The parameters of the American-Australian discussions were of course determined by the results of the concurrent dialogue between Keynes and White. With the simultaneous publication of two competing plans in April, there had been widespread concern about the possibility of a direct clash between the two without positive result. In view of American intransigence on the four basic principles and the dependence of the rest of the world on participation by the United States, the United Kingdom had no alternative than to negotiate on the basis of White's draft. By

[5] Other members of the party were F. L. McDougall, E. McCarthy, J. B. Brigden, and J. W. Burton.

May Keynes made clear that his Government's position was to graft as many features of the Union as possible onto the Fund, but as an entity the Clearing Union had been abandoned. There followed an intensive period of negotiations at the technical level between the United States and the United Kingdom culminating in a meeting of experts in Washington in September-October 1943. As a result of this meeting a substantial although by no means complete convergence of views was achieved, and with further redrafting the reconciliation (with appropriate caveats) was published in the form of a Joint Statement of Experts in April 1944 in preparation for the International Monetary and Financial Conference of the United and Associated Nations to be held at Bretton Woods, New Hampshire, the following July. During the period of reconciliation Canberra was only vaguely aware of the compromises that had been reached, and further discussion will be deferred until the next section.

However, it will be useful at this stage to outline briefly the Australian response to the Fund in September 1943, shortly after the return of the official delegation. There was at this time some resignation to the basic principles of the Fund and to the American point of view, but also continuing doubts as to whether dependent economies would achieve any net advantage from membership. In his report to the Financial and Economic Committee on his overseas trip,[6] Coombs suggested that the minimum criteria for Australian membership should be: (1) an adequate quota in line with the country's expected balance of payments position; (2) acceptance by the major countries of a commitment to domestic full employment; (3) in the event of failure to maintain such policies, the right to withdraw to be made explicit; and (4) in the event of withdrawal the requirement to repay overdrafts to be clarified. This defeatist attitude was in line with the committee's previous response to Article VII collaboration, but was reinforced by Coombs' personal sensitivity to the mass unemployment of the 'thirties and his entrenched scepticism about the capacity and willingness of the United States to maintain consistently an expansionary policy. In conversations with White in Washington, Coombs raised on several occasions the nature of American policy during the economic depression of the 'thirties as an illustration of the importance of not relying on "goodwill" to solve the problem of the accumulation of credit balances; and within the confines of Canberra he expressed openly his mistrust of the conservative elements in the Administration and Congress, mistrust which gave currency to the aphorism "Roosevelt will die someday".[7] There is no suggestion that other senior officials were not of like mind, and it will be recalled that Coombs was not as closely involved as Giblin and others in the early formulation of the employment approach. But his Messianic pursuit of full employment for social and economic reasons, his rising position in Canberra and personal influence on Chifley, played a key role in lifting the employment objective to such a prominent

[6] Meeting, 11 Sep 1943.
[7] The phrase was not of Coombs' minting.

place in foreign and domestic policy during the latter stages of reconstruction planning.

The most tangible result of the United Nations Conference on Food and Agriculture at Hot Springs, Virginia, in May 1943 was the establishment of an Interim Commission to draft articles for a permanent Food and Agriculture Organisation. The conference was intended as a preliminary survey of the terrain at the technical level and without commitment. Until post-war monetary and trade questions were settled, it was accepted that no firm agreement could be expected. The agenda was not settled until shortly before the conference opened, and even then was cast in very general terms. Three broad subjects were to be discussed: food consumption levels and requirements; the problem of expansion of production and adaptation to consumption needs; and facilities for improving distribution. At the request of the United States, food relief during the transitional period from wartime to normal peacetime production was excluded from the agenda, although such a vital problem for European countries could not be ignored entirely. Explicit reference to the Atlantic Charter or Article VII was omitted from the terms of reference, but it was assumed by all that the principles laid down in these declarations provided the conference with its starting point.

The absence of detailed proposals gave the Australian delegation an opportunity to canvass its proposal for an international employment agreement by linking nutrition to full employment. Although ministerial representation was not intended, Evatt took full advantage of the assembly to outline the Australian position:

> There is need . . . for international action, consisting primarily in the recognition by all Governments of an international responsibility to improve nutritional standards and increase productive efficiency within their own territories; the acceptance by each country of an obligation to report periodically to other nations on action being taken to achieve these purposes and on the progress which has been made; and the acceptance by each country of an obligation to assist . . . those in need by preventing want and by improving living standards everywhere throughout the world. . . .
>
> A similar approach can be made to the crucial problem of full employment. A basic requirement of an expanding world economy in the post-war period is the building up and maintaining of the highest level of employment in industrial countries. For this reason we believe that this conference should recommend to Governments the recognition of an international responsibility for maintaining a high level of employment.[8]

Delegates could be excused for believing that this was settled Australian Government policy, and there was some discomfort in Canberra that a ministerial statement had been made in these terms without prior Cabinet approval. However, the emphasis on nutrition and employment was in general well received. A number of less developed countries were not convinced that employment should be accorded such high priority and preferred to give industrial development precedence; but there was wide

[8] *Digest of Decisions and Announcements*, No. 59, p. 33.

acceptance of nutritional obligations even though European governments were coy about their own post-war agricultural policies. The Australian delegation was well pleased with the conference recommendation "that Governments recognise and embody in a formal declaration their obligations to collaborate in raising the levels of nutrition and standards of living of their own peoples".

Probably the sharpest impression left by the Hot Springs Conference on the delegates from the forty-four nations was the overwhelming evidence of world-wide nutritional deprivation. In view of this and the rapid escalation in food shortage caused by the war, restrictions on production to reinforce buffer stocks schemes (of the kind examined in London in November 1942) were hardly likely to receive sympathetic consideration. Some time was spent on the problem of the determination of buffer stock basic prices in the long-term, and the matter was placed on the agenda for further examination. But the first priority was given to the alleviation of hunger and an expansion in production with emphasis on "protective" rather than "energy" foods.

Following the story to the end of the war, the Interim Commission (on which F. L. McDougall served) recommended in mid-1944 that the Food and Agriculture Organisation (F.A.O.) be constituted permanently as an annual conference of all members (with one vote each) and with an executive committee of between nine and fifteen members. The conference as the policy-making body would have the power to recommend by two-thirds majority action on food and agricultural matters for implementation by member countries. This was to be the limit of F.A.O.'s authority. Its main functions were to promote nutritional, food and agricultural education and research; conserve natural resources; develop the processing and marketing of food and agricultural products; and work towards the adoption of international policies for commodity arrangements (such as buffer stocks). Clearly the organisation depended heavily on the voluntary co-operation of member countries, particularly the detailed reports which they undertook to submit, and their financial contributions. Australia accepted membership, and its financial commitment of 3.33 per cent of total membership levies imposed by F.A.O., at the end of 1944.[9] F.A.O. was launched at the beginning of 1945 with the adherence of the required number of twenty nations and thus was the first of the wartime United Nations agencies to be established. The initial conference to determine policy and the relationship of F.A.O. to other United Nations agencies was held in Quebec in October 1945.

The final round of the Australian delegation's negotiations in 1943 involved the most sensitive and important of the Article VII subjects: the post-war basis of international commercial conduct and the level of tariffs. The matter had lain dormant through 1942 as neither the United States nor the United Kingdom was anxious to make the first move. As

[9] Full Cabinet Agendum 728; meeting 12 Sep 1944. Formal adherence to the organisation was embodied in the *United Nations Food and Agriculture Act* of 1944, assent 7 Dec.

noted earlier, British opinion was divided as to the relative merits of the multilateral and bilateral approaches. In any case, the initial view in Whitehall was that the United States should make the running and that there was much to be gained from allowing the monetary proposals to take precedence. For their part the Americans felt unable to make a start until after the re-enactment of their *Trade Agreement Act* (due in March 1943). This was the legislation which authorised the bilateral trade agreements which had been the hallmark of American commercial policy since the late 'thirties. The attitude of Congress to renewal would play an important part in determining the Administration's negotiating position.

Early in 1943 the United Kingdom Government reversed its wait-and-see policy and decided to take the initiative, judging that its own interests would be served best by moving before American opinion had crystalised and as soon as possible after the relatively easy passage of the Trade Agreement Bill. The British War Cabinet approved an aide-mémoire in April and invited the Dominions and India to London for preliminary discussions in June.

The aide-mémoire outlined a bold and comparatively simple approach to the reduction of tariffs and other trade barriers on a multilateral basis. A commercial union was proposed with as large a membership as possible supported by some form of permanent international organisation. Within the union each member would accord others most-favoured-nation treatment. The most important tariff proposals were, first, the imposition of an overall ceiling in the *ad valorem* rate of duty and, second, a fixed percentage reduction in all existing schedules (except that specific duties need not be reduced below 10 per cent). Precise figures for the ceiling rate and the percentage reduction were not mentioned, although it was assumed that the ceiling would be either 25 or 30 per cent. Imperial preference margins were also to be reduced with a view to their eventual elimination, and no new preferential system was to be created. So as to achieve the maximum benefit from the tariff proposals, stringent rules on the use of export subsidies and import restrictions were suggested. Subsidies to assist domestic production were regarded as legitimate, but subsidies on exports were to be prohibited. Similarly, the restriction of imports by licensing and the use of quotas was to be removed progressively, and could be used thereafter only to protect a country's balance of payments, to assist the working of commodity arrangements, or for reasons of national security. State trading, however, was to be permitted. The whole package was closely linked in principle with the scheme for international monetary reform, for unless there was a substantial improvement in international liquidity there was no chance of reducing trade barriers significantly.

The Australians approached the meeting with no enthusiasm and in a negative frame of mind. When the conference was first suggested Evatt had sought a postponement so as to avoid the Labour Government becoming linked with tariff reduction at the forthcoming general elections. More important was the fear that the British multilateral proposal would

threaten the bilateral negotiations with the United States which were making very slow progress, but which Canberra believed would result in substantial concessions for wool and other commodities. With support from South Africa which was in a similar position, Coombs, as leader of the delegation, pressed very hard for the preservation of bilateral arrangements within the framework of the multilateral scheme. But as this was alien to the principle of multilateralism and would dissipate the attack on American tariffs (the primary purpose of the British proposal), United Kingdom representatives were strongly opposed to the suggestion.

More generally, the Australians were critical of the whole approach based on across-the-board tariff reductions and the imposition of a ceiling, claiming with South Africa and India that this did not take sufficient account of differences in the stages of development between countries. Criticism was also levelled at the severe restrictions on the use of export subsidies and import quotas on the ground that these were a legitimate form of protection in certain circumstances, particularly in fostering infant industries. According to the Australians, British rationalisation of this reaction was based on a League of Nations study[1] which attributed the failure to prevent the growth of trade barriers in the inter-war period, despite many conferences to reverse the trend, to the isolation of commercial policy from general economic policy, the reluctance to interfere in domestic matters, and the expression of resolutions in very general terms. This was used by Coombs to emphasise once again the need to link commercial policy with the adoption of an employment agreement, and to approach Article VII in a positive and systematic way. Coombs claimed on his return to Australia that British representatives had accepted the need for greater co-ordination,[2] but there is no evidence for this in the subsequent course of events. Indeed, the constant Australian emphasis on the so-called positive features of Article VII, while at the same time maintaining on matters of detail an attitude of narrow self-interest, was beginning to be seen for what it was.[3]

The meeting with the Dominions did not alter the British proposals on any point of substance. Canada supported them unreservedly which was regarded in Whitehall as the most useful indication of their likely reception in the United States. Indeed, when Anglo-American talks opened in Washington in September on the basis of the British document, the Americans were more receptive than expected. It is true that American thinking had not advanced as far as the British, and on a number of major issues judgment was reserved; the discussions were in any case on a non-committal basis. But a number of senior officials were gradually

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[1] *Commercial Policy in the Inter-War Period: International Proposals and National Policies*, Geneva 1942.

[2] "Report on London Discussions on Post-War Commercial Policy", Jun 1943.

[3] The Board of Trade's summary of the London talks in "Post-War Commercial Policy Discussions", 29 Jun 1943 (Australian Archives A571 44/1109) makes no mention of this concession to the Australian viewpoint. Australian officials (and ministers) usually placed a highly favourable interpretation on the results of their meetings with British and American delegates, partly through inexperience and partly in self-justification. This was particularly pronounced in 1943 when the employment doctrine was on trial as a tactical device and had not yet been "sold" to Cabinet.

weaned away from bilateralism and towards the multilateral approach. There was also support in principle for the formation of a commercial union on the basis of an international code of commercial conduct, and for a general reduction in tariffs if suitable formulae could be found. The matters on which the Americans were totally opposed were restrictions on export subsidies, and the proposition that Imperial preference should be phased out gradually and over an unspecified period. The suggested strictures on export subsidies conflicted with established American agricultural policy, and United States officials were not willing at this stage to admit any lessening of their determination to insist on the prompt abolition of Imperial preference. While these differences were fundamental, there was sufficient common ground for the United Kingdom and the United States to issue a joint statement on commercial policy in November 1943 which made it plain that a long and difficult period of negotiation lay ahead but that compromise was possible.

By the end of 1943 sufficient progress had been made in a number of areas of international post-war planning to require the Australian Government to define its policy for the high level negotiations scheduled for 1944. The major policy decision had already been taken *de facto*, and the Full Cabinet was presented with a document which closed all the options. Nevertheless, Evatt's submission of January 1944, adopted without amendment,[4] is important because of its integrated and definitive nature.

The submission revealed an exaggerated suspicion of the motives of the United Kingdom and the United States, and the persistence of a negative approach to detailed proposals. The complaints about London and Washington were that all matters of substance were decided on an Anglo-American basis without adequate discussion at the formative stage with other countries, and that the interests of countries dependent on the export of primary products were neglected. This was to some extent true, but the dominance of the two Atlantic powers was inevitable and to a certain extent desirable. Progress towards meaningful collaboration depended above all on Anglo-American agreement. As has been seen, such agreement was difficult enough to achieve without the premature involvement of others. Progress was possible because the war provided a unique set of circumstances: an unparalleled degree of economic integration between the Allies, a common desire to avoid a repetition of the economic chaos of the nineteen thirties, and conditions of relative secrecy in which to conduct complex negotiations (without, in other words, the need to play to the gallery of national electorates). This does not mean that the influence of other Allied countries need have been or in fact was excluded, as is reflected in the frequent United Kingdom-Dominion conferences. The intensity of Evatt's complaint about two-power dominance was a measure of his lack of success in persuading others that Australia deserved and was entitled to a special position of influence.

[4] Full Cabinet Agendum 594; meeting 24 Jan 1944.

The lack of interest in working within the framework of Anglo-American collaboration was evident in Evatt's blunt dismissal of the more important proposals. He conceded that there might be some value in the Stabilisation Fund in so far as rates of exchange would be stabilised (but not necessarily the Australian rate), and if the Fund "would guarantee to us a satisfactory quantity of overseas exchange, and would increase the purchasing power of others". But as the position of dependent economies was not adequately safeguarded, he concluded that "I view the [monetary] discussions with much scepticism and with no enthusiasm". The British commercial proposals were dismissed without hesitation: "The scheme as it stands at present . . . I regard as quite out of the question . . . as a practical proposal". The policy as adopted by the Cabinet was to work towards the delay of any general reduction in tariffs and other barriers until after the end of the war and until such time as "we are confident that full employment is being maintained, not only in Australia, but in other parts of the world". The central plank of the policy as finally sanctioned was the one conceived originally by the Financial and Economic Committee. Australian representatives abroad, ministerial if possible, should work towards acceptance on every suitable occasion of an international employment agreement which would bind member countries to pursue domestic policies for the maintenance of full employment. A Cabinet sub-committee on international economic collaboration was appointed[5] to examine the details of any agreement, but in themselves the details were not accorded a high priority. The employment doctrine was in itself a policy for all seasons.

AUSTRALIA AND ARTICLE VII: BROADER HORIZONS

In one sense the Cabinet's decision of January 1944 strengthened the hands of the country's representatives abroad. They now had an unambiguous directive and were able to state the case with greater confidence and force. At the same time their task became much more difficult. The adoption of an international agreement on employment required more diplomatic skill and international influence than Australia could reasonably expect to command. The propaganda element also needed careful and experienced handling, for it was already clear that Australia's motive was suspect. Further, Australian delegates frequently found themselves moving on a different plane from their overseas counterparts. At a time when a number of schemes had reached the stage of settling the fine print, Australia remained preoccupied with general principles. On occasions the outcome was to lessen the country's influence on the outcome of the many working sessions concerned with fine details. The point should not, however, be pressed too far. At the expert level Australia was very ably represented, and there were few occasions of importance when her interests were not adequately defended. Nevertheless, during 1944 and 1945 intellectual energy was fixed on the employment agreement. Unless a particular

[5] Composed of the following ministers: External Affairs (chairman), Treasurer, Army, Trade and Customs, Commerce, War Organisation of Industry, and Information.

matter affected Australia directly, there was little time for, or even interest in, the wide range of subjects under negotiation.

The first round in what was to prove an arduous negotiating year began in London in February 1944 with a further meeting between the United Kingdom, the Dominions and India. The agenda was much longer than for the London talks of June 1943, and covered the full range of Article VII subjects, including for the first time an item on cartels. Sessions, however, were dominated by discussion of the recent Anglo-American statement on monetary proposals, and the British commercial policy document which since June had been amended and amplified. As before the conference was between officials and without government commitment, but in the case of the Stabilisation Fund (shortly to be re-christened the International Monetary Fund) a clear statement of intentions was expected. L. G. Melville headed the Australian delegation.[6]

Preparations for London were centred on securing a working arrangement with Peter Fraser, New Zealand Prime Minister, for an Australasian presentation of the employment argument. A New Zealand delegation headed by Fraser was in Canberra in January 1944 to discuss regional defence and other matters in the post-war period,[7] and the opportunity was taken to secure agreement with New Zealand for mutual support in the presentation of the employment approach. The accord that was reached was not incorporated in the formal document outlining the scope of Australian-New Zealand co-operation—the so-called Pacific Charter—but a five-point understanding was achieved as follows:

1. A high level of employment was accepted as fundamental to better living standards, and it was agreed to press strongly for an international agreement by which (a) subscribing countries will bind themselves to pursue domestic policies aimed at full employment, and (b) existing organisations such as the International Labour Organisation will be used, or a new organisation established, to facilitate the exchange of information and consultation with each other on employment policy and generally give effect to the employment agreement.

2. During the immediate post-war period when unsettled conditions will prevail, the two countries agree to support forms of international economic collaboration which make it unnecessary for countries to become aggressively nationalistic economically.

3. A maximum degree of collaboration is desirable, but it is recognised that many countries are unwilling to enter into inflexible obligations. Therefore, the agreement should at least provide for regulation consultation.

4. Countries which are not highly developed or are dependent on a narrow range of exports should be permitted to (a) use measures such as import selection, exchange control, state trading and Imperial preference to ensure continued stability until the success of international collaboration reduces the need for these measures, and (b) develop and diversify their industry.

5. All agreements affecting Australia and New Zealand should take into account the dislocations and developments made necessary by total war efforts, and also of accumulated needs resulting from prolonged diversion from peacetime production.

This was in substance the official brief used by Melville in London.

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[6] Other representatives were: E. McCarthy, F. L. McDougall, F. H. Wheeler and N. G. Butlin.
[7] See Hasluck, *The Government and the People 1942-1945*, pp. 479-83.

In London there was a shift in Australia's attitude to the scheme for monetary union which reflected the decision to strive for a *separate* employment agreement and the advanced stage that Anglo-American negotiations had reached. Incorporation of an undertaking in the preamble was raised but not made an issue; the sweeping claims of 1943 about the Fund's inadequacies were not repeated. Rather, Melville accepted the scheme in principle and concentrated on the detailed points which were expected to affect Australia directly.

The meeting had before it the partial Anglo-American agreement of September-October 1943 which was with subsequent amendment to be published shortly as a Joint Statement of Experts. Keynes and White had agreed on all the routine articles. The Americans accepted that contributed quotas should total $US8.5 billion, still too small in the view of many but a distinct improvement on the original $US5 billion. Also accepted was an amendment of the scarce currency clause, a means of rationing the currencies of persistent creditor nations. It will be recalled that the manner of penalising persistent creditors had been a contentious matter from the outset. Keynes had proposed that a nominal rate of interest be charged on credit balances, while the Australians insisted on a stiffer penalty. When any form of monetary penalty was found to be totally unacceptable in Washington, the scarce currency clause was devised. In its revised form the clause released all members from their obligations towards a currency which was declared by the Fund to be scarce. This meant that members were not obliged to draw on their gold reserves in order to settle balances with the country whose currency had been so declared, and that temporary exchange restrictions could be introduced against the member concerned. For some the application of indirect pressure in this way was not nearly strong enough, but it appeared to be the best compromise available. Settlement had also been achieved of another matter of original concern to Australia—the conditions of withdrawal. The United States had dropped its insistence on conditional withdrawal and agreed that a member should have the right to withdraw without restriction.

Three outstanding matters of concern to Australia remained unresolved by the Joint Statement. First, anticipating a repetition of 1930-31, the requirement that any exchange devaluation be limited in the first instance to 10 per cent was regarded as too restrictive. A further devaluation of 10 per cent could be permitted by the Fund to correct a *fundamental* balance of payments disequilibrium, but Melville believed that the Fund was unlikely to regard this as a suitable remedy for Australia.[8] Melville suggested as an alternative that countries which experienced a deterioration in their terms of trade should be allowed greater freedom to vary their rates of exchange. The suggestion was noted, but it was clear that White was unlikely to consider it seriously. Second, the amount of *annual* drawing from the Fund was assessed as inadequate. This was limited to

[8] The basis of this view is not clear, but appears to depend on the judgment that the Fund was unlikely to regard short-term fluctuations in the volume and price of exports as an indication of fundamental disequilibrium.

25 per cent of quota per year with a total restriction of 200 per cent of quota. On a preliminary assessment of Australia's share, this limited the country to £19,000,000 sterling per annum, an amount judged to be insufficient to cover the periodic deficiency in the payments balance to which the country was subject. The pessimistic assumption on which this was based was that only a small proportion of London Funds would be available for conversion after the war, and that it would be necessary to use drawing rights extensively. Melville therefore proposed an increase in the annual drawing right to 33⅓ per cent, at least for those countries without the cushion of a reasonable gold reserve.[9] Third, there was concern, shared by the United Kingdom and others, about the "transitional arrangements", the timetable for implementing the provisions of the Fund. From the outset extreme views had been taken on the important question of timing. From their position of immense economic strength, the Americans insisted that the Fund should commence within a year of the cessation of hostilities; from the opposite standpoint the British pleaded for as much grace as possible, and declined to specify the length of time that would be needed. The Joint Statement nominated a maximum period of three years during which time members would work towards the elimination of exchange restrictions and impediments to multilateral clearing. After three years a member who had not eliminated all restrictions (except those ordinarily permitted by the Fund) was obliged to "consult the Fund as to their further retention". This was still regarded by both the United Kingdom and Australia as too restrictive, and was made the subject of protracted negotiations at Bretton Woods.

Indeed, the basic points raised by Melville were carried forward to Bretton Woods and, with the employment doctrine, made the basis of the Australian case for modification. The purpose of the London monetary discussions was not to settle detailed points such as these, but to acquaint the Dominions with the Joint Statement and to test their reactions to what was to become the penultimate version of the scheme.

It was on the subject of commercial policy that the contradictions in Australian policy were revealed. The United Kingdom had not altered its gambit. A multilateral reduction in tariffs was still the basis of the approach, with the imposition of an overall tariff ceiling and a fixed percentage reduction in existing rates. The main developments were that figures had been added, and that the future of Imperial preference was made clearer. A ceiling of 25 per cent *ad valorem* was suggested with cuts

[9] Although Coombs knew in 1943 of American qualifications on the right to use quotas automatically, Melville made no reference in his official report of the London meeting on the long and complex disagreement between the United Kingdom and the United States on this subject. The British view, advanced strenuously by Keynes, was that quotas once determined should be available freely and without restrictions of any kind on the ground that automatic entitlement was an essential condition for enlarging effective international liquidity. By contrast, the Americans adopted, in Keynes' description, a "grandmotherly" approach, insisting that the right to draw should be made conditional on "good conduct". In other words, the resources of the Fund should not be used as a source of long-term capital or to maintain an unbalanced position, and that the Fund should from the outset have some authority to refuse assistance if quotas were to be used for these purposes. The dispute, based partly on misunderstanding, lingered on through Bretton Woods and after. See Horsefield, *The International Monetary Fund*, Vol. 1, pp. 67-75.

in existing rates of 50 per cent, 5 per cent *ad valorem* of the latter to be added back. Preferential rates were not to be reduced unless the cut in the general rate lowered the margin to less than 5 percentage points. In short, a 5 per cent preferential margin was to be preserved.

Although the British proposals were for standard tactical reasons bold and oversimplified, the Australian reaction was as aggressively negative as it had been the previous June. A majority of the Dominions was in favour of drastic reductions in tariffs, the formula approach, and the need for large cuts in preferences in conjunction with the lowering of general rates. Melville at first refused to consider any of these, maintaining that reduction by formula would produce inequities, and that the adjustment problem would be intolerable. Simultaneously the scheme for an employment agreement was presented for inclusion in all the key international economic arrangements as a condition of Australian acceptance of any of them. The British and Canadians were not slow in exposing this as a clumsy attempt to insert a blanket escape clause, and there was considerable embarrassment on Australia's side when her delegates were reminded that international collaboration involved sacrifices as well as privileges. The case might have been presented with greater tact, but this is beside the point. Ultimately the responsibility lay with the simplistic formulation of the policy and as a consequence the inadequate briefing of Melville. There was simply no prepared answer to those who wanted to know in some detail what effect the reductions would have on the Australian economy. The homework had not been done. As a matter of high priority Melville urged in his report on the meeting that a detailed investigation be conducted which would enable some concession to be offered in future negotiations but, partly because of obstruction by the Department of Trade and Customs, no such enquiry was conducted before the end of the war.

In spite of Australian intransigence, or perhaps because of it, the United Kingdom eventually agreed to play along with some aspects of the employment agreement. The draft agreement was accepted as a basis for the insertion of full employment as an explicit and primary objective in the articles of the Fund and any commercial union. The apparent British concession delighted Canberra but it meant little in practice. The probable motive of the British officials was to create a diplomatic carousel which Australia could enjoy harmlessly. Keynes and his associates knew that the United States would not accept any binding commitment to full employment however defined, and were not prepared to jeopardise their own plans for the unattainable. This is not to suggest that Whitehall underrated the importance of full employment as a domestic policy objective: planning was more advanced than in Australia and publication of Beveridge's White Paper was only a few months away.

The remaining items listed for discussion in London were disposed of promptly. A slightly amended draft on commodity policy was considered, but there was little the Dominions could add to the points that had been made in October-November 1942. It will be recalled that this

earlier meeting left two main questions unresolved: the extent to which subsidies on production would be permitted in any commodity arrangement, and the role of quantitative restrictions on production in supporting the operation of buffer stocks. The United Kingdom, anxious to reduce her heavy dependence on food imports, was strongly opposed to restrictions on subsidies and was determined not to sanction the widespread use of quantitative restrictions on exports. Since 1942 British and American officials had made limited progress in reaching a compromise, the United States on this occasion supporting the interests of the large agricultural exporters. A preliminary Anglo-American policy document, made available to Dominion delegates in March 1944, revealed that the British accepted the case against the widespread use of subsidies but for political reasons they were not prepared to enter into any binding obligation to restrict subsidies by imposing quantitative limits on subsidised production. In the case of export quotas, more progress had been achieved and it appeared that the remaining differences in emphasis could be resolved. However, the completion of an acceptable arrangement was still in the future. The Australian interest in the scheme had dwindled, and the Australian contribution in London was confined to minor procedural matters.

The possibility of an international agreement to control cartels was discussed for the first time because of American interest in the subject, but there were no specific proposals. The most that appeared to be contemplated was an international register of those restrictive practices which affected more than one country. The Dominions were reasonably impressed by the possibilities, but the United Kingdom was unenthusiastic.

The warning that had been given in London about the reaction of the major powers to a binding employment agreement made no impact at ministerial level in Canberra. Preparations for launching the policy in open international forum at the twenty-sixth conference of the International Labour Organisation at Philadelphia from 20th April went ahead as planned. Some senior officials had doubts about the wisdom of using I.L.O. in this way. The purpose of the conference was to explore the relationship between the organisation and the new international bodies that were emerging, and to draft I.L.O.'s post-war objectives. In the past its attention had focused on industrial relations and it had little background in general economic policy. Moreover, I.L.O. was composed of government, employer and employee representatives, whereas the Australian Government's proposal was based on achieving a strictly inter-governmental commitment. This was one reason for the reluctance, noted earlier, to vest I.L.O. with responsibility for administering the agreement. But second thoughts were swept aside in the growing enthusiasm for what was now described as Australia's "foreign economic policy". The conference presented an opportunity not to be missed. A senior minister, J. A. Beasley, was appointed to lead the delegation. Although Beasley had a background in I.L.O. work, Article VII and economic diplomacy were not his subjects.

From the Australian point of view, the key events at Philadelphia were the presentation of separate employment proposals by Beasley and Frances Perkins, United States Secretary of Labour. Beasley in the plenary session outlined in typically robust fashion the need for a binding employment agreement and proposed that I.L.O. recommend to governments that a special employment conference be called to formulate such an agreement. One difficulty which arose at the outset was equivocation over the role of I.L.O. if an agreement materialised. Beasley in his address asserted initially that I.L.O. was the appropriate body, but then modified this almost immediately by stating that an organisation with a tripartite composition would not have the status to enforce an intergovernmental commitment.[1] As an alternative Beasley suggested the creation of an International Labour Committee composed of government representatives of the United Nations. The I.L.O. would make recommendations to this committee, which governments would then be bound to carry out. Alternatively I.L.O. could be reconstituted on a purely intergovernmental basis. Beasley concluded:

> The important thing is to agree to hold a United Nations Conference to seek an international employment agreement. The machinery necessary to carry this agreement into effect can be determined later. Do not let us be side-tracked into discussion of machinery; let us first decide for what purpose we want machinery.

The weakness was fatal. The American resolution, which emphasised the importance of employment among other social objectives, was set firmly within the existing structure of I.L.O., and sought also to define the relationship of the organisation with the new international bodies. The deficiency of the American draft was, in the opinion of the Australian delegation, that it included no binding provision; the United States delegate responded by accusing Beasley of attempting to bypass I.L.O. Subsequent events make a tangled story of misunderstanding, backroom manoeuvring, charge and countercharge, leading to a deterioration in diplomatic relations between the two countries. An effort was made to redraft the American version to include a stronger employment commitment, but after some delay the State Department applied the veto: Washington would under no circumstances accept a binding commitment. Beasley felt betrayed and revealed his own inexperience in an emotionally-charged record of the conference. He was, however, determined to insist on a binding agreement even though the Australian position at Bretton Woods could be threatened, for in his final address he declared in the crudest possible terms that:

> It is our attitude and it must be the attitude of every country greatly dependent on overseas trade, that we cannot possibly restrict our freedom of action with respect to monetary and commercial policy without some assurance that high levels of employment and consumption will be maintained particularly in the main consuming areas.[2]

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[1] "International Labour Organisation of the League of Nations—Twenty-sixth Conference, held at Philadelphia, 20th April to 13th May, 1944—Reports of the Australian Delegates", *Parliamentary Paper*, 1 Dec 1944, Appendix A, paras 31-45.

[2] "International Labour Organisation . . . Twenty-sixth Conference", Appendix G.

In the event the Australian motion was lost narrowly; the American recommendation was carried almost unanimously. The Australian call for a United Nations conference on employment was accepted, but as no date was fixed this had little meaning. Beasley claimed that despite the formal defeat the Government's policy had been successful in demonstrating to other small nations where their true interests lay. It is true that the measure obtained a substantial amount of support, but it was not the small nations Australia was primarily interested in influencing. The lesson was that international collaboration of the kind contemplated required long and intensive diplomatic negotiation in advance and in closed session. Playing to the gallery as at Philadelphia was no substitute.

On 25th May 1944 the United States issued an invitation to forty-four nations, including Australia, to meet in formal conference beginning on 1st July at Bretton Woods "for the purpose of formulating definite proposals for an International Monetary Fund and possibly a Bank for Reconstruction and Development". At the same time a smaller group of countries, again including Australia, was invited to participate in a preliminary drafting conference at Atlantic City at the end of June. The starting point of both conferences was the Anglo-American Joint Statement of Experts of April 1944.

The notable feature of the Full Cabinet's detailed consideration of the position to be adopted at the conference was growing suspicion of the implications of monetary co-operation and deepening mistrust of the motives of the United States. Ministers were still smarting under the series of rebuffs administered by Washington. In addition to the rough handling of the employment proposal at Philadelphia, advice had been received from the United Kingdom that two points argued by Melville in London at the Dominion talks and which the British had agreed to sponsor had been rejected by the Americans. These were the inclusion of the employment proposal in the Bretton Woods agenda, and the allotment to Australia of a quota of $US300,000,000 (about £A69,000,000). The American estimate based on a formula was that Australia was entitled to about $US149,000,000. The advice Cabinet received from officials was that although there were unsatisfactory features of the Fund, the benefits probably outweighed the disadvantages and that a strong team of delegates under ministerial leadership should be assembled to negotiate improvements. A few Ministers adopted a pragmatic approach unfettered by doctrinal preconceptions. Chifley, for example, put the matter in perspective when he urged his colleagues to consider the post-war position in the absence of the Fund. He suggested that there could well be a return to the competitive exchange depreciation and economic nationalism that had afflicted the inter-war years. By contrast, "An International Monetary Fund would help increase world trade; it would help Australia directly and assistance to other countries would benefit Australia indirectly."[3] But the majority of Ministers were not familiar with the details, found the

[3] Full Cabinet meeting, 31 May 1944.

technicalities of the scheme difficult, and were dominated by an ingrained hostility to high finance.

It was only with some difficulty, therefore, that Evatt and Chifley persuaded their colleagues to accept the American invitation. But so as to emphasise the Government's lack of commitment a minister was not appointed to head the delegation and three officials only were selected—L. G. Melville (Commonwealth Bank), F. H. Wheeler[4] (Treasury), and A. H. Tange[5] (Post-War Reconstruction). In practice J. B. Brigden, Economic Counsellor to the Australian Minister in Washington, joined the delegation. As Melville was the first to point out on his return, the decision to send such a small team was a mistake. The Bretton Woods conference was divided into three general commissions, the first on the Fund, the second on the Bank, and the third on other means of international financial collaboration. Commission I was divided into four main groups, a steering committee, a drafting committee, a committee on unsettled problems, and eight *ad hoc* committees appointed from time to time to deal with special problems. In addition, a great many of the important decisions were taken outside formal sessions. Despite an enormous amount of very able work, the three delegates found it impossible to keep in touch adequately with all the developments that were taking place.

Cabinet's instructions were, however, much more precise than on previous occasions. The delegates were required:

1. To press strongly for substantially increased accommodation both in respect of "quota" and annual drawing rights.

2. To seek — (a) inclusion of a provision that the Fund shall not reject a requested change in the exchange rate which is designed to meet a serious and persistent deficit in the balance of payments on current account accompanied by a substantially adverse change in the terms of trade; (b) the alteration of "purpose and policies" of the Fund to give more emphasis to employment and less emphasis to exchange stability, and to strengthen the safeguards against the Fund interfering with the domestic policies of a country.

3. To ask that it be made clear that the right of withdrawal from the Fund should not be prejudiced by making membership of the Fund a condition of membership of any other international body.

4. To urge that an employment agreement should be concluded before a final decision is sought on whether countries will become members of the Fund.

5. To report any proposals made concerning the time of commencement of benefits and obligations before a decision regarding the Australian attitude is made.

In addition, Cabinet made a special point of emphasising that "Australia is not to be committed to adherence to any resolution of the conference even on an official level". And it was made plain that "any scheme of international monetary stabilisation arrived at may not be acceptable to

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[4] Sir Frederick Wheeler, CBE. State Sav Bk Vict 1929-39; Treasury Res Off 1939, Econst 1944, Asst Secty 1946; First Asst Secy 1949-52; Treasr ILO Geneva 1952-60; Chmn Cth Pub Serv Bd 1960-71; Secty Treasury from 1971. B. Melbourne, 9 Jan 1914.

[5] Sir Arthur Tange, CBE. Econ Res C'wealth Govt Depts 1942-46; First Sec Aus Miss to UN 1946-48; Couns UN Div C'berra 1948-50; Asst Secty Ext Aff 1950-53; Aus Min Washington 1953-54; Secty Dept Ext Aff 1954-65; Aust High Comm to India 1965-70; Secty Dept Def from 1970. B. Sydney, 18 Aug 1914.

the Government in any event". When the Bank was under consideration, delegates were merely to "hear the proposals of the conference . . . and on their return to Australia submit a report for the consideration of Cabinet".[6] In short, all options were to be kept open.

The Atlantic City meeting yielded a host of suggested amendments to the Joint Statement, all of which were transmitted to the main conference without resolution. The following summary concentrates, therefore, on Bretton Woods and on those points identified by Cabinet as of special concern to Australia.

Quota and Drawing Rights

The distribution of quotas was one of the most difficult tasks before the conference. Australia was merely one of many who believed that the allocation derived from the American formula was inadequate for their needs and special circumstances. The ground rules for final distribution were determined by three factors: (i) the determination of the United States to restrict total quotas to $US8.5 billion (subsequently edged up to $US8.8 billion); (ii) an Anglo-American agreement which divided blocks of quotas according to spheres of influence and economic importance, so that the United States quota would be about $US2.5 billion, the United Kingdom about half this figure, the Soviet Union and China amounts which would secure them third and fourth place respectively, and for the British Commonwealth as a whole an aggregate which would not exceed the American quota; and (iii) a formula based on national income, external reserves, exports and imports.[7] Australia was not represented directly on the *ad hoc* committee on quotas, but put forward a strong case for a larger quota than the preliminary allocation of $US149,000,000 because of the relative importance of her foreign trade and the traditional volatility of export prices and volumes. The substance of the argument was accepted and the quota was increased to $US200,000,000. This fell well short of the demand for at least $US300,000,000, but in comparison with other countries who were in a similar situation Australia was well treated. Nevertheless, the delegation entered an official reservation. The quota remained intact when Australia joined the Fund in 1947 despite a protest from Egypt that the Bretton Woods allocation had been overgenerous.[8]

The conference rejected the request to increase annual drawing rights from 25 to 33⅓ per cent of quota on the paternalistic argument of the United States that an imprudent country would be able to run up its overdraft too quickly and against its own best interests. But the 25 per

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[6] Full Cabinet Agendum 669, 30 May 1944; meetings 31 May, 12 and 13 Jun 1944.

[7] The composition of the formula was:
90 per cent of the total of—
2 per cent of national income, 1940,
5 per cent of gold and dollar balances on 1 Jul 1943,
10 per cent of maximum variation of exports, 1934-38,
10 per cent of average imports, 1934-38,
increased for each country in the same ratio as average exports, 1934-38, bore to national income.

[8] See Horsefield, *International Monetary Fund*, Vol. 1, p. 168.

cent annual limitation only applied when total drawings exceeded 75 per cent of quota, or when a particular request would result in that figure being exceeded. Australia was influential in having inserted a waiver condition (Article V, Sec. 4) which allowed the Fund to ease the 25 per cent limitation in the event of "periodic or exceptional requirements", special consideration being given to members "with a record of avoiding large or continuous use of the Fund's resources". Thus, Australia's argument that special consideration should be given to those members with unstable trading conditions was reasonably well satisfied. So long as the rules and spirit of the Fund were accepted, reserves could be augmented by about £A15,600,000 annually (more if previous drawings had been limited). With the growth in sterling reserves during 1943 and 1944, the position of external liquidity offered a modest degree of security despite uncertainty about the availability of sterling balances.

Exchange Rate Variations

Under strong pressure from the United Kingdom, Australia and a number of other countries, the United States agreed to relax some of the provisions governing changes in the par values of currencies. Formally the main rules were not altered. The Fund was obliged to accept automatically a change from the initial par value of up to 10 per cent, and to make a decision within seventy-two hours if a member proposed a variation of a further 10 per cent. However, at Bretton Woods a clause was inserted which enabled the Fund to approve variations greater than 20 per cent, although the Fund was permitted more time to notify its decision. Members who made unauthorised changes were not to be suspended automatically but became "ineligible to use the resources of the Fund" while efforts were being made to resolve the matter. The member was required to withdraw and settle its account when all reasonable efforts to achieve a settlement had failed. As an additionl qualification, the conference retained the declaration in the Joint Statement that the Fund would not object to a change because of a member's domestic social and political policies. In view of this retreat from hard-line exchange stability, an Australian proposal to permit a country to change its exchange rate to cope with a "serious and persistent deficit in the balance of payments on current account accompanied by a substantially adverse change in the terms of trade" was rejected as superfluous. Melville was obligated to enter an official reservation, but reported to Canberra that the exchange rate provisions could now be accepted.[9]

Withdrawal from Membership

As noted earlier, Australia's main objection to the withdrawal provisions had been met well before Bretton Woods: the Americans had accepted that withdrawal should become effective immediately on notification.

[9] All exchange rate variations, whether requiring the approval of the Fund or not, were only to be made to correct a "fundamental disequilibrium". Australia urged that the articles include a definition of the expression, but the conference wisely declined.

There remained, however, a possible link between membership of the Bank and the Fund, and Cabinet sought an amendment designed to sever any membership link between the two. The argument was that the right of withdrawal should not be prejudiced in any way. As substantial indirect benefits were anticipated from the establishment of the Bank, the amendment smacked of an attempt to butter bread on both sides. Melville was informed that discussion of the Fund was not the place to raise membership of the Bank, and further embarrassment was avoided by not pressing the matter.

Employment

The suggested employment agreement received some rough handling at the conference. The item was relegated to Commission III (on other means of international financial collaboration) which became a forum for ventilating sectional grievances and extraneous motions. The draft Australian resolution invited governments to accept an employment undertaking concurrently with the international monetary agreement "in which the signatories will pledge themselves to their own people and to one another to maintain high levels of employment in their respective countries, and to exchange information on measures necessary to prevent the growth of unemployment and its spread to other countries". Some support in principle was secured from the United Kingdom, New Zealand, France and Poland, but the United States and most others insisted, predictably, that such an undertaking was beyond the scope of the conference, and there was total opposition to the wording. Plainly governments could not pledge themselves to the people of other countries. A watered-down version of the resolution was, however, equally unsuccessful, for both the British and Americans were anxious to avoid a potentially divisive general discussion of the kind that the Australian resolution would generate, and which would encompass inevitably the sensitive matter of post-war commercial policy. Thus the proposal was shelved with a commission recommendation that the subject was too complex for immediate decision; it was to be studied further and treated as part of any subsequent Article VII conversations. Similarly, the Australian attempt to amend Article I (Purposes) by strengthening the reference to the full employment objective and reducing the emphasis on exchange stability met with very little response, and Melville was obliged to enter a formal reservation to the article as a whole.

Transitional Provisions and Commencement

By agreement between the United Kingdom and the United States, a draft covering transitional arrangements was prepared (and accepted by the conference) which substantially allayed British apprehension. In substance the period during which exchange restrictions could be continued was increased from three to five years after the commencement of the Fund. Operations were to begin when countries representing 65 per cent of the total quota notified acceptance.

International Bank

Australia's main interest in the draft articles for the International Bank for Reconstruction and Development was the size of her capital liability and the expected indirect benefits through export sales from loans to war-devastated countries. The purpose of the Bank was to accelerate reconstruction, and promote economic development generally, by providing a guarantee to creditors for long-term loans at reasonable rates of interest. Loans on this basis were restricted, however, to members of the Bank, and membership of the Bank and Fund was linked. Total capital was set at $US10 billion of which 20 per cent was to be the initial call (2 per cent in gold or United States currency and the remainder in the currencies of members). Special payment arrangements were made for war-devastated countries and those with balance of payments difficulties. The total Australian liability was £A62,500,000 (the same as the Fund quota) with an initial subscription of £A12,500,000. Melville urged the Cabinet to consider the payment as an investment rather than a gift, and pointed out that the contingent liability (if needed to meet losses) would be called at a maximum rate of 1 per cent per annum. The Bank's commission of 1 to 1½ per cent on guaranteeing loans was expected, however, to cover losses. Australia was not likely to be a large borrower or lender, but Melville recommended acceptance because of the modest cost and anticipated indirect benefits.

Signature

The fuss over whether the Australian delegation should or should not sign the Final Act of the conference illustrated the Government's continuing suspicion of the Fund. From the outset it had been made perfectly clear that no part of the Bretton Woods proceedings would be binding on governments, and all that was sought was agreement at official level for subsequent ratification or otherwise. But when Melville recommended on 16th July (a few days before the end of the conference) that he should sign both draft articles on behalf of Australia, there was a sharp reaction from Canberra. Melville explained that the signature implied no commitment, that refusal to sign would receive bad publicity and would be taken as a policy decision, that from a technical point of view Australia could join the Fund and Bank with safety, and urged that no action be taken which could prejudice the relatively favourable quota allocation. On the 17th the delegation's instructions were to inform the conference that signature would be improper, and on no account to sign on behalf of Australia. This placed Melville in an intolerable position, for some form of signature was essential merely to certify the results of the conference. However, under diplomatic pressure from London and Washington the Government relented marginally. On the 22nd the War Cabinet decided[1] to instruct the delegation to abstain from voting but to sign the

[1] War Cabinet Minute 3678.

Final Act for "purposes of certification". The compromise did little to advance the case for a positive approach to international collaboration.

In his final report on Bretton Woods[2] which recommended membership of the Fund and the Bank, Melville highlighted the key deficiency in Australia's foreign economic policy. He noted that there had been widespread acceptance of the central point that monetary and trade reforms were not sufficient in themselves to secure steady economic expansion and high employment, but that the tactical strength of the argument was seriously undermined by the failure of Australia to stand up and be counted on specific proposals for reform. As noted, the credibility of the policy had been challenged in London at the beginning of the year; the gap widened at Bretton Woods, and in more damaging circumstances. As a matter of urgency, therefore, Melville recommended the preparation of a comprehensive "framework of reference to which our stand on specific issues can be judged". There was no suggestion that the quest for a full employment agreement be abandoned or modified. If the policy was not to be dismissed as a mere tactical device, Australia would need to approach future conference on specific issues in a more positive frame of mind and with a great deal more information.[3]

Cabinet's decision was to defer the question of membership until after the Final Act had been ratified by the United States and the United Kingdom.[4] The final date for joining as an original member was 31st December 1945. As the United Kingdom delayed notification of acceptance until the last moment pending the outcome of Anglo-American financial negotiations, there was insufficient time for Australia to join with the thirty-five countries who signed the Agreement by the deadline and formed the Fund and the Bank as from the beginning of 1946. The real reason for the delay was mounting opposition from within the Labor Party to Australian membership of the Fund which had little to do with a dispassionate assessment of benefits and costs.[5] Membership was secured, however, in April 1947 on the terms negotiated at Bretton Woods.

Following Bretton Woods attention centred on securing the international conference on employment which had been recommended by the I.L.O. at Philadelphia. While there was no alteration to the basic premise of the employment doctrine during the final year of the war, the argument was presented in a more sophisticated and internationally acceptable form. The document evolved to support the case was sensitive to the aspirations of countries with different priorities, and attempted to accommodate the objections of the major powers. There emerged, too, a greater willingness to incorporate the proposal within the framework of detailed plans for economic collaboration, and to accept the point that trade and

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[2] Dated 26 Aug.

[3] An edited version of the report and supporting documents published in "Documents Relating to the United Nations Monetary and Financial Conference, held at Bretton Woods, U.S.A., from 1st July to 22nd July, 1944", *Parliamentary Paper*, 30 Nov 1944.

[4] Full Cabinet Agendum 669A, 28 Aug 1944.

[5] For the political story see Crisp, *Ben Chifley: A Biography*, Ch. XIV.

employment were so closely related that the two should be dealt with jointly. Part of the change was due to improved knowledge and experience, part to greatly improved external economic prospects compared with 1942, and part to a new flexibility by the United States Administration which will be referred to shortly.

To secure sponsorship for an employment conference, the Government sought the support of New Zealand and the United Kingdom for a joint approach to the United States. Forde and Evatt obtained the full concurrence of New Zealand at a ministerial meeting in Wellington in November.[6] The United Kingdom also accepted the invitation in December, although it expressed reservations on several points of detail. The Australian draft which had been sent to London envisaged the formation of a separate international employment organisation, and London expressed doubts about the wisdom of bypassing I.L.O. (doubts which were shared by New Zealand). The Dominions Office was also anxious to contact a number of other countries before the approach was made, and warned the Minister for External Affairs about the consequences of premature publication of the document.[7]

Nevertheless, an approach was made by the three to the State Department at the end of January 1945.[8] The matter was handled by Will Clayton, Assistant Secretary of State, who was sympathetic to the principle but doubted whether an agenda could be prepared which did not include items already covered by the monetary and trade negotiations. He thought that it would be extremely difficult to organise an international conference to deal primarily with domestic policies, and feared that a separate conference would negate the trade talks. If employment was highlighted in this way, countries would be tempted to exaggerate the importance of retaining tariffs and import restrictions for employment purposes. In short, the American answer was as it always had been—no.

But the American rejection of a separate conference should not be seen as restatement of their traditional political hostility to the implications of full employment planning. Indeed, within the Administration during 1944 (especially after the re-election of Roosevelt at the end of the year) there had been considerable movement of opinion towards a more realistic assessment of the post-war role of the United States. Some softening of the line was evident at Bretton Woods, and continued when the Anglo-American commercial discussions resumed in London on 7th December. American thinking on commercial policy had progressed to the point of incorporating their ideas in a draft convention for an international trade organisation. As outlined by Harry Hawkins, Economic Counsellor at the United States Embassy in London, the basic features of the convention were a general provision for most-favoured-nation treatment between

[6] See also Hasluck, *The Government and the People 1942-1945*, pp. 495-6, 498-9.

[7] Evatt was anxious to bring the proposal out as soon as possible in the form of a White Paper along the lines of the United Kingdom's Clearing Union White Paper of 1943.

[8] Australian Archives, Dept of Post-War Reconstruction file 1321. Hasluck, *The Government and the People 1942-1945*, p. 469, is mistaken in suggesting that no formal approach was made to the United States.

member states, and a multilateral reduction in tariff rates. The proposal was to reduce general tariff rates to one-half compared with July 1939, subject to the provision that no duty need be reduced below 10 per cent *ad valorem*. Linked with this was the suggestion that Imperial preference margins should be reduced on a sliding scale so as to achieve cuts of between 50 and 100 per cent. But the significant point is not the detail. The draft revealed that the United States was now prepared to accept a multilateral framework and to work towards a heavy cut in their own schedules. Further, the draft's preamble acknowledged explicitly the substance of the Australian doctrine when it set down that employment policy was not solely a domestic concern, that international commercial measures alone would not ensure against economic depressions and unemployment, and that employment policy in one nation should not be such as to aggravate the situation in other nations.

The rising tide continued through the United Nations Conference on International Organisation at San Francisco from 25th April to 26th June 1945. The Australian contribution in its wider setting is discussed elsewhere,[9] but it is important to note here the part played by the delegation —led by Forde and Evatt—in elevating the status of the Economic and Social Council and strengthening Chapter IV of the Charter on international economic and social co-operation. The Dumbarton Oaks draft of August 1944, the starting point for the San Francisco conference, had made only vague reference to social and economic advancement in the following statement of purposes:

> With a view to the creation of conditions of stability and well-being . . ., the Organisation should facilitate solutions of international economic, social and other humanitarian problems and promote respect for human rights and fundamental freedoms.

In Committee 3 of Commission II the Australian delegation set about replacing this text with the substance of the employment agreement. The intentions were to make full employment and social progress on a broad front prime objectives of the Economic and Social Council, and to incorporate in the Charter an undertaking that members would "pledge" themselves to these objectives. As in the past, the difficulty was not with the statement of objectives but with the pledge. Roland Wilson and J. W. Burton[1] (alternates for Forde and Evatt on the Economic and Social Co-operation Committee) found themselves involved in a marathon exposition of the Australian argument to persuade doubters that a firm commitment over a wide range of domestic policy matters was necessary and desirable. In the end a commitment was obtained but in an ambiguous form. Members of the United Nations "pledged themselves to take joint and separate action in co-operation with the Organisation" (Article 56) to achieve higher standards of living, full employment, conditions of social

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[9] Hasluck, *The Government and the People 1942-1945*, pp. 503 ff.

[1] J. W. Burton. PMG Dept, Dept Comm Bur Stats, Dept Lab Nat Serv; Dept Ext Aff 1941; Secty 1947-50; Aust High Commr Ceylon 1951; Reader in International Relns Univ Coll London from 1963. B. Melbourne, Vic, 2 Mar 1915.

and economic progress; solutions of international economic, social, health, and related problems; and universal respect for, and observance of, human rights and fundamental freedoms for all (Article 55). The counterpoint was in Article 2 (7):

> Nothing contained in the present Charter shall authorise the United Nations to intervene in matters which are essentially within the domestic jurisdictions of any state or shall require the Members to submit such matters to settlement under the present Charter. . . .

Nevertheless Evatt was well satisfied with the outcome, and in the circumstances the conference could not have gone further. While the Australians were by no means alone in stressing employment, they worked as hard as any delegation in propagating the doctrine and in finding an acceptable form of words. They were also active in furnishing the Economic and Social Council with power to initiate studies and make reports in the economic and social field, to prepare draft conventions for submission to the General Assembly, and to initiate international conferences (Article 62). All these were areas of international action which had figured prominently in the draft employment agreement.

Success at San Francisco did not mean, however, the end of the attempt to obtain a separate employment conference and agreement. Although the enhanced status and functions of the Economic and Social Council was seen as a step forward, the Government accepted that much would depend on the degree of co-operation between the Council and associated United Nations agencies and the quality of the secretariat. After the first flush of success had subsided, it appreciated also that the special conditions which prevailed at San Francisco were unlikely to be recaptured when detailed economic negotiations were resumed. For the Council was created in an economic vacuum: the interests of individual countries were not at risk. How far the implications of the San Francisco decision had been accepted had still to be tested.

The final chapter of the story belongs to the highly complex trade negotiations which culminated in the Trade and Employment Conferences at Geneva in 1947 and Havana in 1948, leading to the creation of the International Trade Organisation (I.T.O.) and the separate but related General Agreement on Tariffs and Trade (G.A.T.T.). A full account of the negotiations is beyond the scope of this volume,[2] but the essential points as they relate to wartime policy can be summarised.

During 1945 and 1946 there occurred a progressive shift away from the attempt to obtain an across-the-board reduction in tariffs, and increased emphasis on the core of Anglo-American concern—Imperial preference. In these discussions the United Kingdom won the vital point that she could only accept a modest and gradual cut in preference margins in view of her desperate economic plight. In February 1946 the discussions were brought within the ambit of the Economic and Social Council of the

[2] For details see D. F. Nicholson, *Australia's Trade Relations: An Outline History of Australia's Overseas Trading Arrangements* (1955).

United Nations, and divided into two parallel sets of negotiations. The first dealt with the preparation of a code of commercial conduct to be administered by the International Trade Organisation; the second with a series of bilateral trade deals but within a broad multilateral framework. At the same time the employment question was merged with the negotiations: the United Nations conferences were styled "Trade and Employment". Australian pressure played an important part in obtaining the amalgamation. This was the proper place for the consideration of employment, and the quest for a separate employment conference was not pursued.

Within the Charter of I.T.O. and G.A.T.T. were contained most of the provisions and safeguards which the Australian negotiators had sought. The Charter established the importance of maintaining high and stable levels of employment and of aggregate demand as a prime condition for the removal of trade restrictions and for expanding the volume of trade. The most-favoured-nation clause was the Charter's cardinal principle. The negotiations were conducted, however, against a background of slow European economic recovery, and an American trade surplus far larger than had been anticipated during the war. There were therefore many escape clauses in the Charter for the benefit primarily though not exclusively of non-dollar area countries and underdeveloped regions. For example, existing Imperial preference margins were accepted save for specific reductions negotiated within G.A.T.T. The only obligation was not to increase margins. Further, import restrictions were accepted as a necessary device for those countries facing balance of payments difficulties and/or embarking on industrialisation. In certain circumstances tariff rates which had been bound in negotiation could be increased without breaking the rules of the Organisation. In brief, while the emphasis of the Charter was on lowering trade barriers and eliminating discriminatory practices, there was ample room for escape.

The Charter also made provision for government agreements on the marketing of primary products. It laid down the circumstances in which such agreements could be negotiated and the principles with which they must conform in order to be exempted from any of the commercial policy rules in the Charter (for example, those relating to import restrictions) with which such agreements would otherwise be in conflict. On the previously controversial point of export subsidies, little formal restriction was placed on their use. Thus, despite all the work on commodity marketing arrangements since 1942, the outcome was little more than a permit to interested governments to go ahead and see if they could work out agreements on individual commodities, provided these agreements met the conditions and principles specified in the Charter.

G.A.T.T. was the more positive side of the trade negotiations, and incorporated a multitude of specific trade deals between countries. Some of these resulted in substantial tariff reductions, but Australia avoided substantial alterations to her own schedules. Through the most-favoured-nation clause, she did however enjoy important concessions in overseas markets especially through a moderation of the American tariff. Imperial

preferential margins were lowered in some cases as a concession to American opinion but most were of marginal importance to Australia. The negotiated new schedule of tariffs was applied provisionally as from 18th November 1947 and the General Agreement was applied provisionally from 18th January 1948. Australia's formal "acceptance" of G.A.T.T. was contained in the *International Trade Organisation Act* of 1948 but was made conditional on acceptance by the United States and the United Kingdom. As the United States had not formally accepted G.A.T.T. it has continued to be applied by all contracting parties on a provisional basis.

The first point to make in conclusion is that despite undoubted imperfections, the transformation of the organisational structure of the world economy brought about by the creation of the Fund, the Bank, G.A.T.T., and at a different level F.A.O. and U.N.R.R.A., was a remarkable achievement. All were born of enforced Anglo-American collaboration in 1941-42, but were brought to fruition by a common desire to avoid a repetition of the nineteen thirties and to build bridges between the devastation of war and the wider economic horizon that was within grasp. The Australian contribution was, inevitably, small. But there were frequent occasions when it seemed that the Government was following an entirely negative line. Other participants were justifiably irritated by the double-standard contained in the employment approach, and more notice would have been taken of the argument if it had been combined with a willingness to participate in laying the foundations. In the event the early perversity was not of great consequence. The Government achieved most of its objectives and still figured prominently in international forums. This was mainly due to a marked increase in the liberalism and pragmatism of American policy at the end of the war, but also to a more balanced Australian approach.

What of the fundamentals as distinct from the tactical elements of the policy? To what extent was Australian propaganda responsible, by the end of the war, for broad acceptance of full employment by the developed countries?

With the hindsight of generally high and stable employment in the West since 1945, there is a temptation to complain that politicians and economists were obsessed with an episode in the history of capitalism no longer relevant to the post-war world. Preoccupation with the economic depression of the 'thirties was certainly manifest, but the suggestion misses the point. It is now accepted generally that rapid growth and high employment since the war have been due primarily to technical capacity and political willingness to maintain full utilisation of labour resources.[3] The consensus achieved during the war in favour of this objective played a vital part in laying the foundations for the avoidance of a nineteen-thirties-style collapse. Seen in this light, Australian policy was intelligently conceived and directed towards the fundamental problem. The young economists newly recruited to government service swiftly appreciated the

[3] See, for example, Andrew Shonfield, *Modern Capitalism* (1965).

implications of Keynesian economics for the international economy, and the Government was equally quick to absorb the political attractions of the message. The policy's less appealing aspects were its narrowing effects, and the rigidity with which it was pursued. There may have been little prospect of moderating Anglo-American dominance even with a more flexible policy, but the Government certainly gave itself no chance of doing so until after Bretton Woods. Even discounting the advantage of hindsight, the motives of the United Kingdom and the United States were viewed with excessive suspicion. Caution was of course warranted, but insufficient allowance was made for the need to build the framework of collaboration from the grass roots.

Australia's role in disseminating the full employment message is difficult to determine, and any answer must be speculative. On their return to Australia delegations claimed repeatedly to have influenced favourably the thinking of a large number of countries who had not prepared themselves for detailed negotiations. While the claim is exaggerated, it is not without substance. New Zealand was the clearest example, and there were occasions when European countries such as France and Poland appeared to be impressed. India and China were consistently uninterested, judging correctly that the main advantage would flow to developed areas. The two main targets were however the United Kingdom and the United States. For its part the British Government needed no convincing as far as domestic policy was concerned, and was sceptical only of the value of a separate employment agreement. The United States Administration's attitude on this subject was determined primarily by its assessment of congressional opinion. While there was greater tolerance of the full employment objective by Congress at the end of the war, the factors responsible appear to have been Roosevelt's fourth inaugural address of January 1945 which placed emphasis on the creation of job opportunities, and a reassessment by commercial interests of the advantages of maintaining a high level of demand. Australia played a prominent role in pushing employment to the forefront of international conferences, and in effecting a link between trade and employment. Transcending this effort was, however, the intense desire by all people for a measure of economic security after thirty years of war, depression and more war.

FULL EMPLOYMENT AT HOME

In view of the emphasis in the Government's foreign economic policy on domestic full employment, it is surprising to find that preparation of an integrated Australian plan did not start until August 1944. The spur was provided by Curtin who, after his return from the Commonwealth Prime Ministers' meeting in London, instructed the preparation of a paper along the lines of the United Kingdom Government's recently published White Paper. As has been seen, and will be recorded more fully in the following chapters, a great deal of thought had already been given to the immediate and long-term employment problem and there was no doubt that a document embodying the Government's overall post-war strategy would

be produced. Some of the institutional framework was taking shape, notably in the form of the National Works Council, the Commonwealth Bank Bill, and the Demobilisation Bill. In large measure the delay was due merely to uncertainty about the length of the war in the Pacific.

The work of preparation fell to a small group of economists in the Department of Post-War Reconstruction. The outlines were drawn by the Director-General, while two young officials—G. G. Firth[4] (aged 28) and J. F. Nimmo[5] (aged 32)—contributed most of the flesh for the first draft completed in December 1944. The first draft was submitted to the most exhaustive examination. By the time the final version was published as "Full Employment in Australia" on 30th May 1945[6] it had passed through a total of eight drafts and had been transformed completely on two occasions. Few were satisfied with the end result. As the statistical basis was omitted and much of the detailed economic argument emasculated, the economists regarded it as a pallid representation of their views. Many members of the parliamentary Labor Party, particularly those on the Left, were distressed by the absence of proposals for economic and social reform. In view of the expedient of combining in a single document the Government's primary political commitment and its analysis of the means to full employment, this was probably inevitable.

As suggested by the title "Employment, Production and Expenditure in the Transition from War to Peace", the first draft was primarily concerned with containing instability in the immediate post-war years. The model was derived from the trade cycle of 1918-22, and the analysis built up from statistical forecasts of movements in aggregate economic variables over the first four or five post-war years. The exercise was notable as the first official Australian attempt to forecast using estimates of national income and expenditure prepared substantially by H. P. Brown,[7] an official with the Commonwealth Bureau of Census and Statistics.[8] Part of the reason for the extensive use of statistics was to build a solid case for the continuation of controls during the transition, especially those over prices, private investment, and imports; for the figures would reveal the extent of supply shortage, the size of disposable income and accumulated saving, and hence the magnitude of potential instability. Another reason was to provide quantitative guidelines for private investment decisions.

The argument was built around the need to use public investment expenditure to compensate for any deficiency in private consumption or investment after the gap between supply and demand had been closed. For this purpose four demobilisation phases were distinguished:

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[4] G. G. Firth. Ritchie Res Fellow Univ Melb 1938-40; C'wealth Pub Serv 1940-47; Prof of Econ Univ Tas from 1947. B. Leeds, UK, 26 Oct 1916.

[5] J. F. Nimmo, CBE. First Asst Secty (Bkg Trade and Industry) Treasury 1958-60; Dep Secty Prime Min Dept 1960-64; Secty Dept Housing 1964-73. B. Melbourne, 11 Jan 1912.

[6] *Parliamentary Paper*, No. 11 of 1945.

[7] H. P. Brown. Research Divn Bur Census and Stats 1941-49, Director 1949; Prof Fellow in Econ Stats Inst Adv Studies Aust Nat Univ 1950-71. B. 7 Dec 1916. D. 30 Jan 1971.

[8] The first official national income estimates were published in a paper "Estimates of National Income and Public Authority Income and Expenditure" presented on 7 Sep 1945 with the Budget for 1945-46.

Phase I: The period until the defeat of Japan when as many resources as possible should be shifted to the civilian sector in preparation for large-scale demobilisation.

Phase II: The period of about twelve months after the end of the war during heavy transfer of men and materials. It was thought that temporary employment would be required for many of those released from military service and war production until "normal" employment had become available. High priority would be given to the restraint of inflation in this phase of continued scarcity.

Phase III: A phase of perhaps eighteen months during which restocking of private assets should absorb most available labour, and private consumption would remain at a high level.

Phase IV: After two and a half years when "deferred purchases are completed and financial reserves reduced" aggregate expenditure was likely to fall and "for both internal and external reasons, the danger of slump and depression . . . will be very great".

The bulk of the paper dealt with the problem of Phase IV, with emphasis on the orthodox Keynesian remedy of expanding public expenditure to absorb any slack. Five per cent was established as the maximum tolerable rate of unemployment, and most of this percentage would be accounted for by the movement from one job to another. The use of public investment as a flexible instrument was not meant to imply that public authorities would be heavily constrained except when fulfilling a compensating function. It was accepted that high priority works should not be interrupted in this way. The solution was to accumulate a "shelf" of works of lower priority which could be drawn on swiftly if the need arose.

Other ways of achieving employment stability at a high level were considered to be inappropriate or not sufficiently powerful, although they could on occasion play a useful supplementary role. Taxation was not regarded as sufficiently flexible, and most of the increase brought about by the war was thought to be necessary to enlarge the National Welfare Fund and achieve progressive redistribution of income. However, the paper made a point of stressing the role of increases in social service payments in lifting the "floor" of private consumption and hence in increasing stability. The scope for influencing private investment decisions was not thought to be promising except indirectly through fiscal policy. Monetary policy was ignored, for the sole object was to keep interest rates low.

Income redistribution aside, the paper had no particular political colour. The emphasis on full employment as a social as well as economic objective was tempered by economists' traditional stress on the need for improvement in the efficiency of labour and management, and on the desirability of facilitating structural change and the mobility of labour. Few innovations in economic management were suggested, and those that were put forward were of a limited character. A committee of enquiry was suggested to investigate overseas methods of wage determination. The paper proposed setting up a National Investment Board to report on the implications of alternative investment programmes, and the creation of a Planning Office of Cabinet, described as a "small expert statistical" group, to advise on "such major questions of economic policy as the amount and

balance of expenditure necessary to ensure maximum production in particular circumstances". Finally, the transformation of the War Commitments Committee into a civilian body—a Resources Planning Committee —was advocated with responsibility for "formulating plans for the broad allocation of resources within the framework of maximum production". These were economists' answers to the twentieth-century problem of comparatively low industrial efficiency and resource mobility. They were not of political inspiration even though expected to be considered sympathetically.

When circulated with amendments by the Director-General early in 1945, the draft had a mixed reception. Most accepted the broad lines of the argument, but reservations of three kinds were expressed. First and most formidably, the Treasury objected that quantification implied government commitment. Coombs fought hard to retain the forecasts, for without them the elaborate argument about the phases of transition and the instability inherent in demobilisation would fall to the ground. But he was tilting at windmills: there were too many unknowns, the figures were of unproven reliability, and the Treasury was not prepared to take the chance of being proved hopelessly wrong. The estimates were eliminated, and with hindsight the decision was a wise if timid one. Second, many objected that the academic and technical tone was unsuitable for a major statement of policy intended for public consumption. Although Coombs defended the tone as essential for the subject, agreement was reached that bolder and simpler presentation was required. Third, a foretaste of subsequent ideological dissatisfaction was provided by Post-War Reconstruction's Director of Public Relations, Lloyd Ross,[9] who complained that there was little in the draft, and the Government's programme in general, to "excite the community". He suggested a series of white papers on industrial relations, community development, regional planning, education, cultural activity, and mining "that would lift the whole of the present morale in Australia; we would influence the middle class voter and we would continue the initiative which the Government will have won among its own ranks following on the introduction of the Banking Bill". But the preoccupation with employment kept idealism on a tight rein.

The recasting of March 1945 resulted in the document's transformation from a seminar paper to a policy statement.[1] The most significant change was the shift in emphasis from the problems of the transitional period to full employment as a long-term policy. This was achieved more by semantics than by modifications of substance; but by relegating transition problems to secondary status the overall effect was to present full employment and rising standards of living as a central political obligation which was comfortably within reach rather than as a technical possibility. The means of maintaining aggregate expenditure were enlarged and explained

[9] L. M. Ross, OBE. Secty NSW Br Aust Rlys Union 1935-43, 1952-70; Dir Pub Relns Dept Post-War Recnstn 1943-49; Indust writer *Herald* Mbne 1950-52. B. 28 Feb 1901.

[1] At this stage the paper's title was changed to its final form.

with greater clarity, and more space was given to justifying the proposed Planning Office of Cabinet and related organisational changes. One acknowledged weakness of the original draft was the scant attention given to wages policy under conditions defined as "more jobs offering than people seeking work".[2] Officials were restricted by the Government's commitment to the established arbitration machinery, but in addition to the promised review a new and controversial passage was added:

> With improved statistical information, it should be possible to have a regular review of the "basic" wage, say at three-year intervals, expressly designed to ensure that the wage is increased progressively in accord with the trend in real output per head. (Draft "D", para. 151.)

Although the idea had a short life, its inclusion illustrated the fact that this first redraft represented the views of official economists in their most complete form. Judged as a whole the paper was a sophisticated and lucid adaptation of Keynesian economics to Australian conditions. The subsequent story of its evolution is essentially one of evisceration for political and practical purposes, and of papering over the holes that were created.

Hitherto there had been little political direction of the work, but at the end of March the draft was circulated to Ministers for comment. Most expressed broad agreement either explicitly or by their silence. The most common request was for simplification. However, the Minister for Commerce and Agriculture had a valid point when he complained that rural industries had been neglected. The Minister for Trade and Customs argued that a government statement which highlighted post-war prospects should not be published until the war was over because it would divert attention from the war effort. As preparation was obviously essential, this objection was brushed aside. It fell to the Minister for Home Security[3] to express a rank-and-file view:

> I understand it is to be called a "White Paper". That is all to the good, for it is certainly not a red one, and as far as I can see, it has no colour at all. The contents could have been culled with slight alteration from one of those dry as dust economic works we grappled with so heroically in our youth. . . . It is full of generalities and provides no definite plan for post-war building that the man in the street could get his teeth into. . . .

The Minister's broadside at least had the merit of underscoring the point that if the paper was to be read at all it needed further simplification. The task was given to an "expert committee" early in April with instructions to produce a revision as rapidly as possible.[4] The matter was urgent because the Government wanted to publish the White Paper when the Banking Bill and the Re-establishment and Employment Bill were before Parliament. As far as they were known, ministerial views were incorporated. Thus, the Prime Minister disliked the Planning Office and

[2] This definition was regarded as consistent with a maximum recorded rate of unemployment of 4 per cent, a reduction of one percentage point from the first draft.

[3] H. P. Lazzarini.

[4] The expert committee comprised R. I. Downing, G. G. Firth, T. W. Swan, F. H. Wheeler and (in practice) A. H. Tange.

the Investment Board because of the political fuel they offered the Opposition, and they were deleted. In the time available nobody was able to come up with replacements and Part VI of the final version, "Machinery of Government", was reduced to a sequence of platitudes. The request for more detail on the role of rural industries in a fully employed economy was dealt with simply by promising a full statement of rural policy when the work of the Rural Reconstruction Commission was completed.[5] And a substantial reduction and simplification of the text was achieved. By the time the fifth draft had been completed a version very close to the one approved by Cabinet had been produced.

Finally, warts of an inappropriate political complexion were extracted by a Cabinet sub-committee and then by the Full Cabinet. On 25th April the sub-committee of Chifley, Dedman, Holloway and A. A. Calwell[6] met to prepare the document for Cabinet submission. No questions of general principle were raised, but a number of significant passages were deleted. The most important was the suggested review of wage-fixing machinery for the purpose of linking the basic wage to a productivity index. There were a number of general reasons why this was not acceptable, including the natural suspicions of workers about such an impersonal way of deciding changes in their living wage. But the balance was swung with a characteristic declamation by Chifley: to have such a suggestion approved it would be necessary to "argue with Cabinet for a bloody week". Passages on the financing of public expenditure had already undergone considerable compression since the fourth draft, and were reduced further by the sub-committee. References to the continuation of high levels of taxation were avoided, as was explicit mention of the need for deficit financing. As one official claimed, the public finance section was thereby "emasculated". But the tone of the paper still made it clear that the Government would not hesitate to use the Commonwealth Bank to finance deficits as the need arose.

In approving publication of the White Paper early in May,[7] Full Cabinet was content with a few semantic changes. References to business profits and profitability were removed, as was a passage which alluded to "the greater stability of full employment which will allow smooth inclusion of private capital". Phrases which emphasised competition between businessmen, opportunities for increased profits, and partnership between private enterprise and government were recast. Adjustments were also made when the text referred to labour with insufficient delicacy. The expression "mobility of labour" was found to be too abrasive on a number of occasions, while two paragraphs on the need for improved labour efficiency were omitted.

Few of those who were involved in the White Paper's preparation were happy with the result. As a policy prescription for high employment

[5] A statement of post-war rural policy was prepared along White Paper lines in 1946 (see Ch. 23).

[6] Hon. A. A. Calwell. MHR 1940-72; Min for Infmn 1943-49, and Immigration 1945-49. B. West Melbourne, 28 Aug 1896. Died 8 Jul 1973.

[7] Full Cabinet Agendum 821.

the economists most directly involved were the first to admit its glaring weaknesses: its high level of generality, lack of balance, reticence on wages policy and public finance, vague exhortation for improved efficiency, and lack of precision on how the transition problem was to be overcome. Some of the deficiency was due to an initial failure to decide what purpose the paper was to serve. As noted, the initial intention was to produce a purely economic analysis of full employment policy with attention to the first troublesome post-war years, but the subsequent desire to produce a simplified version for wide public distribution led to substantial dilution of the economics. Unfamiliar as the Government was with the British White Paper technique (which had not been a feature of Australian practice), the outcome was an amalgam of ministerial statement and specialist report which served neither purpose adequately. There appears to have been no consideration of separating the broad statement of principles from the technical backup,[8] but there was no other way to present the economic argument in a rigorous form. Further, an opportunity was lost to pull the threads of reconstruction policy together. Special mention was made of the industrial and building programmes, and there were brief references to national works, reconstruction training, ex-service land settlement, and demobilisation. But a great deal more had been flowing from Post-War Reconstruction and other departments since 1943. While many decisions had still to be taken, an integrated statement of objectives might have produced the lift to national morale which Lloyd Ross had sought.

Nevertheless, there can be no question that the White Paper carried an unambiguous message and a policy commitment of the very highest order. The adequacy or not of the supporting argument was by comparison a trivial matter. Dedman did not exaggerate when he declared in Parliament on 30th May that the paper represented a "charter for a new social order". With a background of more than half a century of persistent mass unemployment (war years aside), the attainment of high and stable employment was indeed of revolutionary character to the men of 1945. The power of the full employment ideology was plainly demonstrated by the continued preoccupation with the subject by all major political parties at a time when memory of the nineteen thirties had faded. Not to be overlooked, too, is that the obsession of the nineteen fifties and sixties with economic growth owed much to the White Paper and the development of national income accounting with which it was related, for consistently rising living standards was second only to full employment among post-war goals.

[8] After the elimination of the forecasts from the third draft, Post-War Reconstruction urged the publication of the statistics as a separate paper but was overruled.

CHAPTER 22

RECONSTRUCTION—THE MANPOWER DIMENSION

WHILE full employment was the preoccupation of long-term reconstruction policy, labour shortage was the immediate concern of 1944 and 1945. Unless industrial reconversion and the restoration of housing construction were well advanced by the end of the war, it was anticipated that demand for consumer goods and housing would exceed supply to such an extent that a period of rapid inflation would be followed by a sharp depression. Thus, economists in the Department of Post-War Reconstruction believed that the greater the reallocation of manpower towards housing, industrial reconversion and other similar activities before the end of the war, the greater the chances of maintaining high and stable employment during the transition from war to peace. Similarly, the ambitious proposals for rapid post-war population growth through immigration which were taking shape in 1944 and 1945 depended ultimately on the preservation of full employment. Manpower policy was, therefore, of central importance for reconstruction planning just as it had been for the organisation of the war economy. Before turning to the manpower story of 1944-45, however, consideration should be given to the character of the Department of Post-War Reconstruction and its programme for greater economic and social equality.

PLANS AND PLANNERS

The appointment of H. C. Coombs as Director-General of Post-War Reconstruction in January 1943 represented a departure for the Commonwealth public service. At the time of his appointment Coombs was thirty-five years of age. He did not have the breadth of administrative experience usually associated with appointments of this importance. His training and professional experience was in economics. After completing a Ph.D. degree on central banking at the London School of Economics, he was appointed Assistant Economist to the Commonwealth Bank in 1935. He then accepted the new post of Economist to the Commonwealth Treasury in 1939 at a time when professional economic advice was still alien to the Treasury. The Directorship of Rationing followed in 1942, and in this critical year for the Australian economy Coombs was able, with Roland Wilson in the Department of Labour and National Service, to forge the link between economics and senior public service administration which was to gather momentum towards the end of the war and in the post-war years.

Coombs was joined in the new department by a small team with a similar general background. Nearly all the senior positions were filled by university graduates, a number with outstanding academic achievements to their credit; few of those that were appointed had been steeped in bureaucratic tradition; most had been deeply marked by the experience of mass unemployment in the nineteen thirties and were determined to

work for modification of the economic system; most came from modest circumstances; most were young men in their early thirties. Thus, J. G. Crawford,[1] who had been Lecturer in Rural Economics at the University of Sydney and Economic Adviser to the Rural Bank of New South Wales, was appointed to the key post of Director of Research; Lloyd M. Ross, who had a varied background as a trade union official, university lecturer and author, accepted the position of Director of Public Relations; A. S. Brown,[2] a barrister and solicitor from Melbourne who succeeded Coombs as Director-General in 1949, was appointed Director of the General Division at the end of 1944; H. S. Wyndham,[3] a graduate of the Universities of Sydney and Stanford and an educationalist, joined the department as Co-ordinator of Vocational Training. The exception was R. F. Archer,[4] Director of the Re-establishment Division, who had been a career public servant before the war.

These and other men who filled senior research positions were given their opportunity for rapid advancement by a gap in the composition of the public service. Before the war the service was comparatively small. Most of its functions were routine and there were only limited opportunities for creativity in policy-making. There were few graduates: those with tertiary qualifications were discouraged from joining the service by the rigidity of the career structure. But this was altered almost overnight by the great wartime increase in the scale, range and complexity of public administration. The burgeoning departments and agencies required not only many more clerks but more importantly additions to the slender ranks of those able to take command and chart new policy directions. New opportunities were provided by the enlargement of the Treasury, and by the creation of the Prices Branch, the Rationing Commission and the Department of War Organisation of Industry. But the most attractive new opportunities were provided by the formation of the Department of Post-War Reconstruction. The department was not to be concerned with day-to-day administration; its task was policy creation and co-ordination at the highest level and in an area which offered every prospect for economic and social engineering. It was headed by a Minister known to be sympathetic to new ideas and who gave considerable rein to those who won his confidence. Thus, unrestrained as they were by barriers to rapid promotion, the department was a Mecca for young highly trained social scientists, notably economists, who had a vision of the possibilities for a post-war Australia of greater social equality and economic security.

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[1] Sir John Crawford, CBE. Lectr in Rural Econ Univ Syd 1934-41; Dir of Research Dept Post-War Recontsn 1943-46; Dir C'wealth Bur Agric Econ 1945-50; Secty Dept Comm and Agric 1950-56; Secty Dept Trade 1956-60; Dir Res School Pacific Studies and Prof of Econ Aust Nat Univ 1960-67; Vice-Chanc Aust Nat Univ 1968-73. B. Sydney, 4 Apr 1910.

[2] Sir Allen Brown, CBE. Asst Dir of Rationing; Dir-Gen Post-War Reconstn; Secty Prime Min Dept 1949-59; Dep High Com in UK 1959-65; Aust Ambr to Japan 1965-70. B. Brunswick, Vic, 3 Jul 1911.

[3] Sir Harold Wyndham, CBE. (RAAF 1942) Lectr in Educn Teach Coll Syd 1925-27, 1929-30, 1934; Inspector NSW Dept Educn 1940-47; Secty 1948-51; Dir-Gen Educn 1952-68; Prof Fellow Macquarie Univ 1969-74. B. Forbes, NSW, 27 Jun 1903.

[4] R. F. Archer. (AFC 1917-19) Engr PMG Dept 1920-35; C'wealth Pub Serv Inspr 1936-40; Depty Cont Matls Supply Dept Munitions 1940-44; Dir Re-estab Divn Dept Post-War Reconstn 1944-48; Secty Snowy Mtns Hydro-Elec Auth 1949-52; Asst Secty (Staff and Internal Economy) Dept Defence 1952-59. B. Melbourne, 13 Nov 1894.

Social equality was, then, the keynote of the department's philosophy. This was drawn partly from Labor Party doctrine and partly from personal conviction. Most of those who joined Post-War Reconstruction had reached maturity during the depression of the 'thirties; a number had been attracted to economics and related subjects at university because of a desire to understand and eventually to modify the workings of the economic system. The primary target was of course mass unemployment. But the elimination of mass unemployment was an uncertain prospect and, even if achieved, would only go part of the way towards the desired income redistribution. It was accepted from the outset that full employment policies would need to be supplemented by measures designed to protect those at the lower end of the income scale, notably by means of improved low-cost housing and extended welfare payments. As expressed by Chifley in his first comprehensive review of reconstruction policy, full employment and rising living standards

> mean more than setting everyone to work to increase the total flow of goods and services. It means using that increase primarily to raise consumption by those now on low incomes. It means improving everybody's environment by the provision of decent housing, decent town and country planning, modern transport and social services. Above all, it means . . . the realisation of some ambitions for personal development, and the opportunity of bringing up happy, healthy, well-educated families.[5]

Elsewhere in his review Chifley spoke of planning, and the need for government control of priorities in the change-over to peace. There were those who read into this a prescription for socialism and the imposition of rigorous long-term planning. To be sure, an enlarged public sector and more positive government intervention in the market were envisaged. But there was to be no frontal attack on capitalism. Indeed, the underlying objective of both the Minister and his department was to bolster the market system by reducing the severity of some of its more unfortunate social consequences.

This pragmatic approach to reconstruction was reflected in the programmes that were developed in 1943 and 1944. Nearly all were concerned with bread-and-butter issues; only rarely was the Government's self-acclaimed socialist philosophy allowed to obtrude. Thus, the principal means of maintaining full employment was to be the creation of a "shelf" of fully-engineered public works administered by a National Works Council. As a supplement to the long-term public investment programme, these works were to be initiated at the first sign of a fall in the level of employment. To be sure, the central control of public investment might have been an important step towards systematic planning, but the primary objective was short-term employment stability. Similarly, the housing programme was intended to overcome the serious back-log in construction and to protect those on low incomes from the expected rapid post-war rise in prices and rents. In its housing policy the Government mirrored the established social priority in favour of a high proportion of income

[5] *Digest of Decisions and Announcements*, No. 69, p. 10, 1 Dec 1943.

spent on housing. The need for town planning and regional development was canvassed but not pursued. Demobilisation and re-establishment policies were designed so as not to overload the labour market immediately after the end of the war, and to offer ex-servicemen every opportunity to upgrade their general education and their technical skills. Industrial reconstruction mainly involved a stay-put policy on the tariff, an open-door policy to manufacturers of motor vehicles to bolster employment, and assistance to the shipbuilding industry for strategic reasons. Some attempt was made to encourage industrial decentralisation by the lease of regional munitions factories to private firms on favourable terms, but there was no attempt to come to grips with the complexity and range of policies required for successful decentralisation. The preoccupation of rural policy was the placement of a limited number of ex-servicemen on the land together with the avoidance of uneconomic agricultural development. The immigration programme was a maverick cutting across, as it did, the fear of heavy post-war unemployment. But in this instance there was a powerful countervailing instinct: the unsophisticated but none the less entrenched belief that the country must populate and develop or face a full-scale "yellow" invasion from the north.

Despite the weight attached to the matter by the Government in its public pronouncements, the failure of the fourteen powers referendum on 19th August 1944 made little apparent difference to the programme. The political background to the referendum is discussed elsewhere,[6] but it should be noted that the Commonwealth sought the power to make laws in respect of the following areas of concern for reconstruction: the reinstatement and advancement of ex-servicemen; employment and unemployment; organised marketing of commodities; profiteering and prices; and national works. In addition, power was sought over companies; trusts, combines and monopolies; production and distribution of goods; and control of overseas exchange. The latter group, while having some bearing on reconstruction, was of significance primarily for the long-term development of the economy. Power was sought for a period of five years after the cessation of hostilities, but it is plain that in most areas new laws would have had little effect if restricted in this way: the Government was presumably counting on re-endorsement at the end of the five-year period.

The Department of Post-War Reconstruction was not closely involved in framing the referendum proposals. Indeed, the major components of reconstruction policy had been framed well before the proposals were submitted to the electorate, and some of the machinery had already been established. The National Works Council had been accepted in principle by the States in 1943 and, as will be discussed in a later chapter, the council's first meeting was held in January 1944. Plans for demobilisation and reinstatement were well in hand before the referendum, and the Commonwealth Reconstruction Training Scheme had commenced, in a small way, at the beginning of 1944. In any case the Commonwealth's defence power was adequate for the purposes of reinstatement. The future

[6] Hasluck, *The Government and the People 1942-1945*, pp. 524-40.

of the controls over prices and rents was less certain, but it was likely that the High Court would allow controls such as these to be retained for a reasonable period, as proved to be the case. Power over housing was not sought. Capacity to regulate the level of employment might have been strengthened by constitutional amendment, mainly by allowing the Commonwealth to determine regional employment levels, but national full employment was within the capacity of the Treasury and the Commonwealth Bank to achieve by existing means. Power over prices, national works and the marketing of commodities would obviously have strengthened the Government's position and eliminated some of the destructive wrangling between the Commonwealth and the States. But the main point is that reconstruction policy was not based on the assumption that the referendum would be carried, and there was only minor modification to the programme after rejection of the Government's case.

Measured by the number of its staff Post-War Reconstruction was one of the smallest wartime departments. It had few administrative functions until 1945. Most of the staff were concerned with research, publicity, and with drawing together the work of inter-departmental committees and commissions of inquiry. In February 1945 Post-War Reconstruction absorbed most of the Department of War Organisation of Industry, and there was as a consequence some increase in its administrative functions. Even so there was little change in the size of the department.

Responsibility for policy was shared with a large number of inter-departmental committees and three special-purpose commissions. In addition, state and local governments were to be involved in the preparation of plans as far as possible, although in practice there was an almost one-way flow of proposals from the Commonwealth to the States. The department acted, therefore, as a co-ordinating agency. It provided a permanent nucleus of senior officials for the generation of ideas—Chifley's "brains trust"—supplied secretarial support for committees, prepared the department's Cabinet agenda, and issued publicity material. But major areas were outside its direct influence. A Rural Reconstruction Commission was constituted in February 1943 to prepare a comprehensive plan for the revival of the rural sector, and this was followed in April 1943 by the appointment of the Housing Commission with a similar brief. Both were commissions of inquiry and reported to the Full Cabinet via the Department of Post-War Reconstruction. Administratively they were attached to the department but in other respects were independent of it. In October 1943 the device was extended by the appointment of the Secondary Industries Commission. This commission differed from the others in that it was not constituted as a board of inquiry. Further, it acted much more as an executive agency even though its formal status was advisory.[7] The commission had direct access to a Cabinet sub-committee on Secondary Industries, and the influence of the department on secondary industries policy was much less than in the case of housing and rural reconstruction. In other areas, too, responsibility was shared.

[7] The Commission is discussed in greater detail in Ch. 24.

The Reconstruction Demobilisation Committee was, for example, composed of representatives of Post-War Reconstruction, the three Services, the Repatriation Commission, and Labour and National Service (the Director-General of Manpower). Post-War Reconstruction's task was to provide the overall co-ordination, and to fill in any gaps that became evident.

MANPOWER BUDGETING

The paper planning depended for its effectiveness, however, on the restoration of key sectors of the economy. As noted earlier, a dramatic reallocation of labour resources in favour of reconstruction activities was regarded as essential for the avoidance of an early post-war depression. But the prospects of achieving such a reallocation were not encouraging. The October 1943 readjustment of the war effort had not resulted in any marked change in the deployment of manpower. Most of the labour released by the Army had been directed to rural industries, but this had done no more than arrest the decline in production. The Department of Munitions had released comparatively few men, and a proportion of the hypothetical release had been absorbed by the commencement of new projects. Very little manpower had been made available for urgent civilian requirements. While some commitments had been reduced others had emerged. The demands for shipbuilding and repair, aircraft production and servicing, radio and signal equipment and small craft were rising rapidly. There was strong pressure on Australia to increase exports of food and munitions items. The possibility of a substantial British naval presence in the Pacific theatre implied new demands on productive capacity adding to the already heavy obligation to the Americans. On the supply side prospects were equally gloomy, for in 1943-44 total male labour resources ceased to grow for the first time during the war (and in effective terms had actually fallen); there was little likelihood that this trend would alter in the near future. The substitution of women for men had fallen short of expectations and experience had shown that at this stage of the war there would be strong resistance—by both men and women—to any attempt to increase the female participation rate.

The groundwork for the inevitable further rebalancing of the war effort required for 1944-45 was more securely laid than it had been in mid-1943. In part this was due to confidence about the outcome of the war. The defeat of Germany was believed to be within sight and coherent thought was being given in London and Washington to the final campaigns against Japan. In 1943 some of the Government's hesitancy about manpower policy had been due to lack of information about the strategic role it should play; in mid-1944 this was no longer the case, or at least not to the same degree. Curtin's attendance at the Commonwealth Prime Ministers' Conference in May had allowed him to improve his relations with Churchill and become more familiar with British policy; he was also able to explain in some detail Australia's manpower difficulties and the fact that no new commitments could be undertaken without sacrificing

others.[8] Also, some of the lessons of 1943-44 had been learnt. Curtin was less impressed by the strictly military arguments and less reliant on the Defence Committee. The War Cabinet was more inclined to specify in greater detail its policy directives and the information it required. It was more insistent that reports be presented promptly, and curbed its previous practice of referring back when compromise could not be obtained readily. The terms of reference for the mid-1944 manpower enquiry were widened to include previously neglected parts of the economy. The Production Executive was promoted and assumed a large part of the responsibility for civilian labour allocation. For the first time preparation of the "manpower budget" for 1944-45 had the appearance of total resources management.

Soon after his return from abroad, Curtin conferred with MacArthur on the proposed reduction in strength of the Australian Military Forces. Agreement was reached that the present strength of the Navy and Air Force should be maintained, but that the Army should be reduced to six divisions and two armoured brigades for active operations. Early in July the War Cabinet ordered the usual reviews of manpower requirements by the Defence Committee and the Production Executive (in association with the War Commitments Committee). The Production Executive was required "to consider the allocations of the balance of the manpower and woman power" that was necessary:

To maintain the needs of the Australian forces.

To provide an appropriate contribution to the needs of the United States Forces.

To provide an appropriate contribution to the needs of the United Kingdom Forces which may be based on Australia.

To provide for the essential needs of the civilian population on standards appropriate to the present state of the war, and the civilian standards of the countries whose forces will be supplied from Australian sources.

To provide for the maintenance of food exports to the United Kingdom (including India) at the level agreed upon, viz. the 1944 scale.

To provide for the production of such goods as may otherwise be approved for export.[9]

The Defence Committee seriously misjudged the Prime Minister's growing command of the strategic situation and his increasing concern with the manpower problem. For it recommended no net reduction in total enlistments; to maintain enlistment strength it proposed a substantial increase in the intake of men and fall in the intake of women.[1] Curtin had before him at the same time a preliminary survey by the War Commitments Committee which estimated, on the most optimistic assumptions, a need for 78,662 men in high priority industries by the end of 1944, and a gap of at least 39,000 men between labour requirements and supply.[2] The Chiefs of Staff were, of course, in a difficult position. There was grow-

[8] See Hasluck, *The Government and the People 1942-1945*, pp. 424 ff.

[9] War Cabinet Minute 3655, 5 Jul 1944.

[1] War Cabinet Agendum 342/1944.

[2] "Review of the Manpower Position October 1943-June 1944 and of Requirements and Resources of Manpower up to December 1944" by the Director-General of Manpower, 17 Jul 1944.

ing dissatisfaction about the minor roles that Australia was being allotted in the Pacific campaigns. But it was unlikely that this situation could have been affected by any marginal increase in service strength. The facts had to be faced, and on this occasion Curtin was prepared to face them. He recommended, and War Cabinet endorsed, a reduction of 30,000 men in the strength of the Australian Military Forces, a reduction of 15,000 men in the strength of the R.A.A.F., with the gross intake of the three Services to be maintained at 3,000 men per month. Of the 45,000 men to be released, 20,000 were to be restored to essential civilian industry by 31st December 1944 and the remaining 25,000 by 30th June 1945. These special releases were to be in addition to routine discharges.[3] The decision was taken before the Production Executive's survey had been completed, and was based on the incomplete data prepared by Wallace Wurth covering the second half of 1944 only. A larger reduction could have been justified if the decision had been delayed a few weeks. But at least a firm decision had been taken and, just as important, sufficiently early in the year for the scheme to have had some chance of success.

The Production Executive survey, undertaken by the Industrial Sub-Committee[4] of the War Commitments Committee, was the first thorough examination of manpower needs outside the Services since Pearl Harbour. All the main administrative organisations concerned with the civilian economy were invited to estimate their minimum manpower needs for 1944-45. Special attention was given to requirements for reconstruction, especially the housing programme and the proposal to expand exports of munitions and other defence items to India and the Netherlands East Indies.

When minimum needs were tallied, demand was of course well in excess of supply. Labour requirements amounted to 155,700 men and 37,700 women against an estimated supply of 117,650 men and 26,000 women (as detailed in the following tabular presentation of the manpower budget). In striking the figure for total labour requirements, the Industrial Sub-Committee had already eliminated or substantially reduced allocations for important post-war activities. For example, no provision was made for the expansion of secondary industries (apart from those connected with the supply of building materials), and an insignificant amount of labour was recommended for urgent civilian public works. The limited supply available was concentrated in three main areas: the restoration of rural manpower, housing, and the expansion of exports. The first was crucial for the maintenance of domestic and overseas food supplies; the second imperative to help overcome the huge housing back-log; and the third, while more expendable, was regarded as necessary for the final stage of

[3] War Cabinet Minute 3691 and 3740, 4 and 23 Aug 1944.

[4] The Industrial Sub-Committee was established by War Cabinet Minute 3612 of 12 Jun 1944 as a standing technical sub-committee of the War Commitments Committee with special responsibility for the labour requirements of the indirect war effort. Much of the parent committee's detailed work was transferred to the sub-committee, which comprised representatives of the Manpower Directorate (chairman), the Departments of War Organisation of Industry and Treasury as the permanent nucleus, and representatives from the Departments of Munitions, Aircraft Production, Supply and Shipping, Commerce and Agriculture, the Allied Works Council, and other departments "according to the nature of the business in hand".

MANPOWER BUDGET, 1944-45

Estimated supply			Allocations and estimated requirements				
				Allocation		Requirements	
Item	Men	Women	Item	Men	Women	Men	Women
1. Net increase in labour pool	600	10,000	1. Approved service intake	36,000	10,400	36,000	12,200
2. Effective routine service discharges	35,700	8,200	2. Australian service demands:				
3. Special Service releases	45,000	—	(a) Aircraft production	1,200	500	1,200	500
4. Reductions in Australian service demands:			(b) Naval ship repair	2,000	—	3,800	—
(a) Munitions	1,250	500	3. Food:				
(b) Supply	11,800	3,250	(a) Rural industry	21,000	500	21,000	500
5. Reductions in United States Forces demands:			(b) Ancillary industries	1,150	—	1,500	—
(a) Munitions	7,950	1,300	(c) Food processing	1,800	1,700	2,050	2,200
(b) Supply	3,900	850	(d) Agricultural machinery	900	—	900	—
(c) Aircraft production	4,750	1,900	4. Merchant shipbuilding	—	—	1,100	—
6. Reduction in Allied Works Council service demands (including recommended elimination of U.S. pre-fabrication)	6,700	—	5. Building and construction:				
			(a) Private (on site)	18,700	—	26,000	—
			(b) Public (on site)	2,000	—	5,000	—
			(c) Materials	5,200	—	7,700	—
			(d) Fittings, etc.	2,500	—	3,500	—
			(e) Training tradesmen	2,000	—	2,000	—
			6. Planning post-war reconstruction (key personnel)	100	—	100	—
			7. Other basic materials	1,000	—	2,700	—
			8. Export	8,100	4,300	14,500	5,800
			9. Transport	2,000	400	5,000	400
			10. Public Utilities	500	200	1,600	200
			11. Health, hospitals	500	1,500	500	2,350
			12. Government Departments:				
			(a) Commonwealth	1,500	1,000	4,000	2,500
			(b) Other	500	500	3,000	1,500
			13. Civilian Requirements (other)	9,000	5,000	12,550	9,550
	117,650	26,000		117,650	26,000	155,700	37,700

Source: Production Executive Agendum 81/1944, Supplement 1, 14 Sep 1944.

the war against Japan and (more doubtfully) for Australia's post-war trade prospects. But to achieve a balanced manpower budget, housing and exports had to be reduced substantially along with allocations for transport, hospital staff, general civilian supplies and government departments. In other words, the war had to go on: fighting and eating had to come before reconstruction. In presenting the Production Executive's report to the War Cabinet on this unsatisfactory state of affairs, Dedman pointed out that the budget had been balanced by means of the following reductions in recommended allocations:

(a) 20 per cent cut in the planned expansion of the *housing programme;*
(b) 40 per cent cut in the expansion of *exports* (in the field of Munitions and Supply) proposed by the Export Committee, chiefly for Netherlands East Indies;
(c) elimination of United States *prefabrication programme*, and progressive reduction in supplies of building materials to United States forces, including 40 per cent cut in United States timber supplies (other than for foodstuffs cases);
(d) failure to accelerate *merchant and naval shipbuilding programmes*;
(e) arrangements for United States forces to ship direct from U.S.A. larger supplies of canned and other *processed foods* (to be considered by Food Executive);
(f) 70 per cent cut in personnel demands by Commonwealth and State *Government Departments*;
(g) 30 per cent cut in expansion of miscellaneous *civilian supplies* proposed by Civilian Requirements Board.[5]

The Production Executive acknowledged that the allocations for reconstruction were inadequate and that there was now little prospect of creating sufficient house-building capacity to achieve a construction rate of 50,000 in the first post-war year (accepted as a minimum planning requirement). It was acknowledged also that it had not been possible "to make adequate provision for the essential needs of the civilian population and for other non-military purposes on standards appropriate to the present stage of the war". Nor could any labour be reserved for the possible needs of any British forces stationed in Australia. But as the number of special releases from the Services had been set at 45,000 men, the War Cabinet had no alternative than to accept the substance of the manpower budget. As usual, qualifications were inserted in the recommendations dealing with cuts in supplies to the United States forces which allowed MacArthur room to argue for some restoration in the event of "urgent operational necessity". Also toned down were directions to the Army and Air Force to accept Manpower Directorate requests for withdrawal of men for approved purposes.[6] But the figures remained intact.[7]

Following completion of the manpower budget, Wallace Wurth retired as Director-General of Manpower and was succeeded by William Funnell.[8]

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[5] War Cabinet Agendum 473/1944, 21 Sep. (Italics in original.)

[6] For example, War Cabinet inserted "to the greatest extent practicable" after "should" in adopting the following recommendation: "That the 45,000 men directed to be released from the Services by War Cabinet should all be . . . personnel nominated or approved by the Director-General of Manpower."

[7] War Cabinet Minutes 3808 and 3851, 27 Sep and 18 Oct 1944.

[8] W. Funnell, ISO. Ch Staff Supt NSW Rlys 1932-42; Asst Dir-Gen Manpower 1942-44; Dir-Gen 1944-46; Secty Dept Lab and Nat Serv 1946-51; Chmn C'wealth Hostels Ltd from 1951. B. Goulburn, NSW, 8 Jun 1891.

Dedman, Minister for War Organisation of Industry, assumed the chairmanship of the War Commitments Committee. These changes coincided approximately with changes in the function and status of the War Commitments Committee. Wurth probably recognised that his role as devil's advocate within the defence hierarchy had ended, and that the tasks of the Manpower Directorate would be more of a routine administrative character. A solution to the manpower problem was, of course, a long way off, but the needs of civilian industry had been established and some progress had been made towards rebalancing the war effort. From mid-1944 the work of the War Commitments Committee merged progressively with that of the Production Executive and the Department of Post-War Reconstruction. Indeed, the committee met in formal session on only three further occasions after the completion of the manpower budget. Detailed advice on manpower allocations continued to be provided by the Industrial Sub-Committee, but the formulation of policy recommendations fell to the Production Executive. A representative of Post-War Reconstruction was added to the permanent nucleus of the Industrial Sub-Committee and Coombs became a member of the War Commitments Committee.

Although the manpower budget for 1944-45 represented in several senses the high-water wark of wartime economic planning, one crucial assumption on which the details were based was that the manpower regulations would retain their effectiveness and that the structure of the work force could be moulded as it had been in 1942 and most of 1943. This assumption was no longer tenable as the war entered its sixth year and the final outcome was no longer in doubt. Allowances were made in the budget for non-effective Service releases and a drift into low priority work, and adjustments were made for declining work force participation rates. But, in general, public servants overestimated their capacity to enforce the manpower controls and, as before, underestimated the psychological impact of the approaching end to the war.

Nominally, the release of men from direct war activities in the second half of 1944 was well in line with the planning targets. Direct and indirect employment for the United States forces fell more rapidly than had been expected and this made up for most of the deficiency caused by the failure of the Department of Supply and Shipping to release men and by the unexpectedly sharp decline in the male work force. But a very high proportion of the routine discharges from the Services were found to be non-effective, which meant that for medical or other reasons they could not be directed to important civilian employment. A few of the special Service releases were in the same category, as were some of those made available by contraction of United States requirements and war production programmes. As shown in the summary of labour supply and absorption for the half-year July to December 1944, the Manpower Directorate was unable to supply the approved labour needs of key post-war reconstruction sectors to anything like the extent that had been envisaged (with the important exception of food production). The main

casualties were building and exports. In the half-year, building and construction received one-third of its allocation for the year while exports received nothing. Instead, men moved into occupations which were physically less taxing and which did not rate a mention in the manpower budget: mainly general civilian manufacturing, commerce, finance, entertainment and personal services. The Manpower Directorate's ability to plug these holes in the budget was limited. In practice the power of direction could not be used against those discharged for medical reasons or those who had completed a substantial period of enlistment; and for political reasons the power had to be used against civilians even more sparingly. Even control of the engagement of labour was proving less effective and becoming more difficult to police. Under the right conditions persuasion was the most effective instrument of control, but these conditions no longer existed.

The performance of the female labour supply was even more disappointing: only 1,000 women were added to the labour pool compared with an estimate for the whole of 1944-45 of 10,000. Further, a high proportion of those released from the Services and war production were found to be non-effective, and it was even more difficult to use the power of direction against women. A major reason for the failure to induce women into the work force was the rise in the marriage rate, a trend which was likely to continue through 1945. The War Commitments Committee concluded in January 1945 that no significant effective supplies of women were likely to be forthcoming during 1945 for industrial purposes and that the replacement of men by women had come to an end. Unless the Government was prepared to introduce much more rigorous control of females, additional women workers could be obtained only by releases from the Services. But this would merely increase Service requirements of men and there was no guarantee, under existing policy, that those women who had volunteered for enlistment could in practice be directed to high priority jobs, particularly in the clothing industry. The implications were clear: there was likely to be continued severe pressure on military clothing supply and on the domestic clothing ration.

Faced with these bleak facts, the Production Executive could either revise the manpower budget (and significantly scale down reconstruction programmes) or persuade the Prime Minister to reduce still further the military commitment. Led by Dedman, the Industrial Sub-Committee, the War Commitments Committee and the Production Executive worked intensively during December 1944 and January 1945 to secure the release of an additional 40,000 men as early as possible. In a strongly worded letter to Curtin, Dedman concluded that

(a) It is impossible to achieve even the allocations to June 1945 already approved by War Cabinet, because the estimates of available supplies of labour on which these allocations were based are not being realised, since experience in the second half of 1944 shows that the total pool of labour is now, for the first time during the war, declining rather than expanding, and that it is necessary to make greater allowance than was previously made for supplies of labour that are non-effective for high priority purposes. . . .

LABOUR SUPPLY AND ABSORPTION, JULY TO DECEMBER, 1944
('000)

Supply Item	Men	Women	Absorption Item	Men	Women
1. Net change in labour pool	—5	1	1. Service recruitment	15	3
2. Routine service discharges	25	5	2. Shipbuilding and repair	—	—
3. Special service releases	18	—	3. Food:		
4. Releases from Australian services production:			(a) Rural industry	13	1
			(b) Ancillary industry	—	—
(a) Munitions	2	1	(c) Processing	1	½
(b) Aircraft production	2	1	(d) Agricultural machinery	—	—
5. Releases from U.S. production and employment:			4. Building:		
			(a) Private	5	—
(a) Munitions	2	1	(b) Public	3	—
(b) Aircraft production	5	2	(c) Materials, fittings, etc.	2	—
(c) Supply	—	—	5. Export	—	—
(d) Direct employment	4	2	6. Transport	3	½
6. Releases from Allied Works Council	6	—	7. Public utilities	½	—
			8. Health, hospitals	½	2
			9. Government departments	1	1
			10. Civilian manufacturing n.e.i.	7	1
			11. Commerce, finance	4	2
			12. Entertainment, personal services	3	2
			13. Professional	½	1
			14. Coal mining	½	—
Sub-total	59	13	Sub-total	59	13
Supply in practice non-effective	—12	—5	Absorption in low priority work	—12	—5
Total (high priority)	47	8	Total (high priority)	47	8

Source: Report of the Industrial Sub-Committee of War Commitments Committee, Jan 1945.

(b) It is considered that important requirements for making good arrears of maintenance (e.g. in transport, public utilities), which it was previously hoped might be further postponed, cannot now be allowed to accumulate for more than a very brief period without grave risk of the breakdown of services essential both to the war and civilian economies.
(c) Not only is it impossible to achieve the existing approved allocations to June 1945, but no improvement can be effected in the second half of 1945, unless further special releases from the Services are directed, because all additional effective supplies of labour which are estimated to become available in the second half of 1945 will be used up or offset by continued Service recruitment at the present approved rates; thus, important additional requirements arising in the second half of the year, such as that of the continued expansion of the housing programme, cannot be met at all without further Service releases.[9]

The story was by now rather stale. There were those outside civilian administration who believed that the manpower authorities were crying wolf and that the case had been overstated. "Gaps" in labour requirements had become a permanent feature of the scene and were common to all fully-mobilised war economies. Further, the threatened breakdown of the civilian economy had not eventuated, or at least not to any marked extent. The defence hierarchy maintained, therefore, that these "gaps", while unfortunate, were part of the price that had to be paid for an appropriate defence deployment. The country was after all at war and defence requirements must receive first priority.

As a counter to this line of argument, the Industrial Sub-Committee attempted to place the labour problem in its proper perspective:

> the fact that requirements for male labour totalling 45,000 men in the first half of 1945 cannot be met does not mean necessarily that there will be any general breakdown of the economic system; but it does mean that Australia must continue through the fifth year of the war on the basis of civilian austerity, and on the basis of only very limited provision for the restoration of key industries and activities (including housing) upon which the Government's plans for post-war re-employment and reconstruction depend.[1]

As seen by the sub-committee, the choice before the Government was between a degree of military adventurism (in the form of an Australian expeditionary force under MacArthur's command) which was unlikely to be of much military significance, and preparations for the avoidance of heavy unemployment after demobilisation. The argument in favour of a more drastic immediate shift to civilian employment rested less on the possibility of breakdown in the supply of goods and services than on the fear of post-war unemployment.

The matter was complicated, however, by growing public criticism of the Army's role in the final campaigns. In the second half of 1944 there had been few press reports of action involving the Australians, and MacArthur's communiques rarely mentioned them. With the announcement of the second round of the special release scheme, conclusions were

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[9] Dedman to Curtin, 1 Feb 1945, copy attached to Production Executive Agendum 14/1945, 17 Feb.
[1] Report of Industrial Sub-Committee of War Commitments Committee to Production Executive, 16 Feb 1945.

being drawn at home and abroad that the Australian forces were withdrawing from active engagement. There were allegations, too, that the morale of the troops had suffered and that they were poorly equipped for the tasks allotted them.[2] Lack of news made it more difficult to maintain public interest at home and to resist pressure for relaxation of austerity.

While many of the complaints were wide of the mark, the most effective rebuttal would come from the use of the 7th and 9th Divisions in forward operations against Japan. Since late in 1944 MacArthur's plans had included the use of two Australian divisions in this way, although details had not been settled; but any further reduction in the strength of the forces would undermine these plans. The Army claimed that if another 40,000 men were released, it would be possible to attach only one division to MacArthur's expeditionary force; the Army's approved strength of six divisions and two armoured brigades was already well below establishment. Although most members of the Government were, by now, sympathetic to the claims of civilian industry and preoccupied with the problems of reconstruction, the War Cabinet on 9th February avoided a clear choice between the military and civilian sectors. The War Cabinet accepted that the war effort was "still in a state of disequilibrium", but "as the Commander-in-Chief S.W.P.A. has made his operational plans on the basis of the Commonwealth military contribution being the remaining strength of the Australian Forces, it was decided that it was impossible to make further reductions at this stage".[3] The Prime Minister was to determine if in fact MacArthur intended to use Australian troops as planned and further consideration was to be given to the matter when these plans were clarified. MacArthur's reply came before the War Cabinet on 20th March: "In categorical reply to your basic question, I would state that my plans contemplate the use of all of the Australian Forces now assigned to the S.W.P.A."[4] Further consideration of the strength of the forces was deferred until after the completion of the next phase of operations.

The War Cabinet was prepared, however, to strengthen the hand of the Manpower Directorate in effecting Service releases. On average about forty per cent of Manpower's recommendations for release had been rejected, with the Air Force (partly for technical reasons) rejecting more than the Army. To help ensure that the quota of special releases was filled, the War Cabinet accepted a War Commitments Committee recommendation that seventy-five per cent of Manpower's recommendations should be approved. In the case of the limited numbers of men required urgently for timber-cutting and the manufacture of rubber, wet batteries, steel sheets and wire, the approval rate should, if necessary, be ninety per cent.[5]

The necessary revision of the manpower budget following War Cabinet's decision of 9th February involved further pruning of reconstruction

[2] For details see Hasluck, *The Government and the People 1942-1945*, pp. 565-82; G. Long, *The Final Campaigns* (1963), in the Army series of this history.
[3] War Cabinet Minute 4044.
[4] War Cabinet Minute 4116; Agendum 115/1945.
[5] War Cabinet Minute 4046, 9 Feb 1945; Agendum 54/1945.

programmes.[6] The additional reason was that new high priority requirements had emerged since the preparation of the budget, mainly for maintenance and the continued servicing of the war economy. Men were required to cut railway sleepers for the repair of tracks which threatened to become unusable; the critical shortage of tyres imposed new requirements for highly skilled men for the manufacture of synthetic rubber to help keep essential transport moving; additional young and fit waterside workers had to be found to expedite the turn-round of ships. Extra requirements under these headings were a modest 2,260 men, but the types of men needed were in very short supply: skilled technicians for the rubber industry and fit, young men for timber-cutting and the wharves.

For the first half of 1945, net labour supply was estimated at 66,000 men[7] compared with 71,000 that would have been needed for the original budget. Allocations, together with revised estimates of minimum requirements, were as follows:[8]

	Allocations	Requirements
Direct war:		
Service recruitment	18,000	18,000
Aircraft production	500	500
Shipbuilding and repair	2,000	6,000
Royal Navy Forces	6,000	6,000
Indirect war and basic civilian requirements:		
Food	5,500	10,500
Timber	2,000	3,500
Clothing and basic materials	2,000	6,500
Transport	3,500	6,000
Public utilities	1,500	2,500
Health, hospitals	500	500
Government departments	1,500	3,000
Civilian manufacturing	2,000	8,000
Post-war reconstruction:		
Building	15,000	23,000
Planning reconstruction	2,000	9,000
Export	4,000	8,000
Totals	66,000	111,000

The deficit of 45,000 men was now larger than it had been in September 1944 which meant that reconstruction programmes had to be reduced drastically. The reduced manpower available for reconstruction was, in effect, concentrated on one sector—building and construction. But even if these amendments proved to be realistic, housing would receive 5,400 fewer men in 1944-45 than had been provided for originally. Other programmes were dealt with more severely. Allocation for the export of munitions and essential supply items to the Netherlands East Indies was

[6] The Industrial Sub-Committee had already estimated labour supply and drawn up proposed allocations on the basis of various assumptions about the War Cabinet's decision, so that recommended allocations were ready a week after 9 Feb.

[7] Made up as follows: 25,000 from routine Service releases, 27,000 from special releases (the remainder of the 45,000), and 31,000 from reduction of war production for Australian and United States Services, making a gross supply of 83,000. Deductions were 5,000 for the estimated fall in the labour pool, and 12,000 non-effectives for high priority purposes.

[8] Report of the Industrial Sub-Committee to Production Executive, 16 Feb 1945.

cut in half, while the programme for the conversion and expansion of manufacturing industries (to provide post-war employment opportunities) was reduced to insignificance. In January the Director-General of Post-War Reconstruction outlined a plan for the expansion of manufacturing involving a total of 26,500 men over a period. The Full Cabinet approved in principle the diversion of 9,000 for this purpose by 30th June 1945.[9] As shown, the Industrial Sub-Committee reduced the allocation to a nominal 2,000.[1]

The Industrial Sub-Committee warned that these allocations, which were approved by the War Cabinet on 27th February,[2] would not be realised unless certain conditions were adhered to strictly. The conditions included the continued enforcement of Manpower Regulations and the maintenance of commodity controls. But the most important conditions were first, the avoidance of "absorption" of labour in war production departments by reducing hours of work and, second, the development of an adequate organisation to ensure that highly skilled people were diverted to key jobs in preparation for reconstruction. The fall in labour input as a result of a decline in the length of the working week was already threatening to become a serious problem. The estimate of labour supply depended to an important degree on 30,000 men being made available from war production, but this number would not be reached unless there was a reversal of the trend from a forty-eight to a forty-four hour week. At the end of February the Full Cabinet instructed all Commonwealth authorities to maintain the maximum hours of work consistent with "health and efficiency",[3] but at this stage of the war the task was almost impossible.

Just as difficult was the second condition which required the close co-operation of the Manpower Directorate, production departments, the Army and Air Force. The diversion of thousands of skilled and semi-skilled technicians and tradesmen into high priority work within civilian industry obviously required intensive organisation to ensure that a balanced labour force was created. Aggregate labour supply was only part of the reconstruction problem; equally important was the reassembly in key industries of the whole spectrum of skills. The wartime annihilation of the domestic home-building industry posed particular difficulties, for former building workers had been scattered far and wide. Unless key people were located in sufficient numbers and their release planned in an orderly manner, the surviving parts of the reconstruction plan would fall to the ground.

In the event, these warnings proved to be no more than straws in the wind. On past experience it was perhaps too much to expect decisions taken in February to have had much influence on the course of events

[9] Full Cabinet Minute 765, 18 Jan 1945.

[1] For reasons mentioned above, no attempt was made to revise the female component of the budget. In effect, the female budget was scrapped.

[2] War Cabinet Minute 4063.

[3] Full Cabinet Minute 800, 26 Feb 1945.

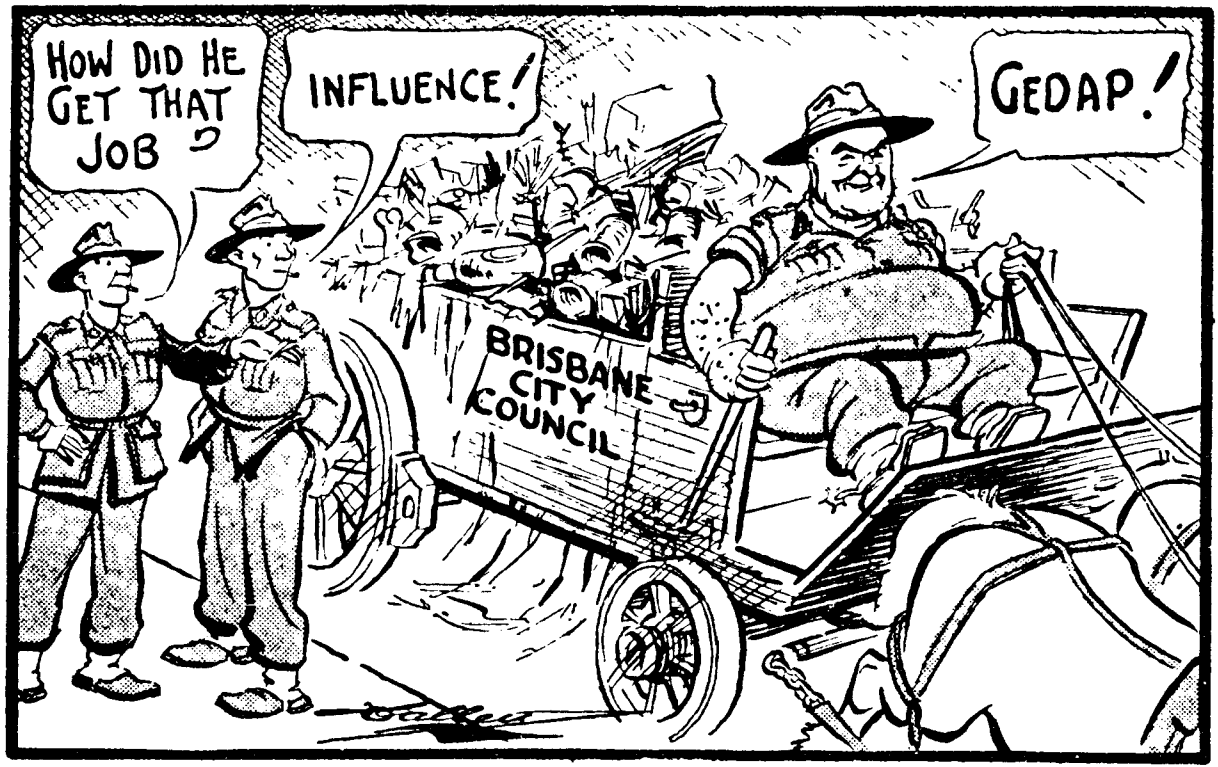
between March and June: the Government had yet to appreciate the importance of advance preparation and notification. When the Industrial Sub-Committee reviewed the progress of manpower planning in June 1945, high priority placements were found to be well short of allocations. Despite material depression of war contracts, a substantial proportion of labour which theoretically had been released had remained in its former employment, working shorter hours, and/or working for the civilian market in low priority activities. The general civilian manufacturing supply position, as a result, had improved considerably, but the high priority needs of other fields had not been satisfied. This was aggravated by the accelerated drift into white collar service industries, and the continued net fall in the work force. Further, routine discharges from the Services were about 6,000 below the estimate as the Army and Air Force employed every available means to protect their ranks.

The most unsatisfactory feature of manpower developments in the first half of 1945 was the flagrant defiance by the Army and Air Force of the War Cabinet's ruling on special Service releases. The Manpower Directorate's recommendations were to be approved to an average extent of seventy-five per cent; for certain very high priority requirements the proportion of approvals was to rise to a minimum of ninety per cent. Manpower recommendations since 1st September 1944 were brought within this ruling. It had not been necessary to enforce the seventy-five per cent rule because total releases from the Army were up to schedule and the Air Force was only a little behind. But the ninety per cent rule had become a sham. In June the War Cabinet was presented with the following figures which summarised the position to 1st May:[4]

	Recommendations submitted since 1 Sep 1944	Released or approved for release	Percentage released
Army:			
Timber	3,035	1,181	38.9
Rubber	570	227	39.8
Wet batteries	139	63	45.3
Wire and steel sheets	362	127	35.1
Sub-total	4,106	1,589	38.9
Air Force:			
Timber	407	275	67.6
Rubber	108	55	50.9
Wet batteries	12	6	50.0
Sub-total	527	336	63.8
Total	4,633	1,934	41.7

The Services concerned contended that nominated men were operationally engaged, or otherwise required for reinforcement or employment in the particular trade within the Service. In short, the men had become too

[4] War Cabinet Agendum 273/1945, 21 Jun.



REHABILITATION

News Item:—Twenty choice jobs at lavatory cleaning, bottle collecting, sanitary and garbage carting offered to returned soldiers by Queensland Manpower Rehabilitation Section.

Hallett in Smith's Weekly *(Sydney) 17 Feb 1945.*

valuable to lose. An associated weakness of the scheme was the system of nomination by the Manpower Directorate. Appropriate when first introduced in 1943 for rural manpower purposes, the system was cumbersome and no longer suitable under 1945 conditions of semi-demobilisation and wide-ranging preparation for reconstruction. The Army and Air Force had a legitimate complaint that many of the nominations would, if approved, have disrupted key segments of military operations, although this does not excuse the blank refusal to co-operate. A more sensible arrangement, and one proposed for the second half of 1945, would have been the specification by Manpower of the total number of releases required in certain categories leaving some flexibility to the Army and Air Force to substitute in agreed cases. Of course, success would have depended on Service co-operation. Even after the defeat of Germany, smouldering resentment of the special release scheme, particularly of the ninety per cent rule, continued.

The result of the short-fall in labour supply was that most reconstructing programmes were lagging badly. Labour for housing and building materials was fifty per cent below the already greatly reduced allocation; export production had received about one-third of the men allotted; there had been virtually no improvement in the already critical situation in timber, rubber, wet batteries, steel sheets and wire, largely because of the failure of the ninety per cent plan. Men for naval ship repair had been supplied to the extent of one-quarter of the allocation, while the railways and stevedoring were behind schedule to a similar degree.[5]

Ironically, the only high priority part of the economy with sufficient labour was the rural sector. By mid-1945 the scheme for the restoration of rural manpower had been in progress for almost two years, and ultimately had been successful in returning a high proportion of enlisted farmers to the land. As early as January 1945 the Standing Committee on Rural Manpower[6] noted that the number of nominations for special Service release had declined and that, apart from special difficulties in the provision of seasonal labour for cane-cutting, the rural labour crisis had passed.[7] In addition to the success of the release scheme and the growing efficiency of Italian prisoners of war, the main reason was the very dry conditions of 1944-45 which reduced the demand for agricultural labour and the requirements of food processing factories. In part, therefore, the improvement was artificial; in other ways rural industries were in poor shape for the transition to the post-war world. There had been no improvement in the supply of labour for the manufacture of agricultural machinery: tractors, harvesting and cultivating machinery and fencing materials continued in very short supply. Similarly, superphosphate was very scarce, less

[5] Report of Industrial Sub-Committee to Production Executive, 13 Jun 1945.

[6] This inter-departmental committee was established at the beginning of 1943 to advise the Manpower Directorate on the best use of available rural manpower. Membership fluctuated but normally comprised the Director of Rural Manpower, Manpower Directorate (chairman), Director-General of Agriculture, Deputy Director of Agricultural Resources, Director of Agricultural Organisation, Federal Executive Officer of District War Agricultural Committees, Liaison Officer between Manpower Directorate and Controller-General of Food, and a representative of the Commonwealth Statistician.

[7] Minutes of the 22nd meeting of the Standing Committee on Rural Manpower, 8 Jan 1945.

because of the shortage of phosphate rock than because of labour shortage in Australian treatment plants.

Following Germany's surrender on 7th May, to take effect midnight 8th-9th, the War Cabinet on the advice of the Advisory War Council acted firmly to release additional men for the civilian economy and to limit existing and future defence commitments. On 31st May the release of at least 50,000 additional men from the Army and Air Force was approved for the second half of 1945 with the familiar objective of restoring "a proper balance between the direct military effort and its industrial basis appropriate to the present and immediate prospective stage of the war".[8] At the same time men with over five years war service (and with operational service overseas) were given the option of taking their discharge. The operational strength of the Army was to be reduced to three divisions accompanied by a proportional reduction in the size of the Air Force.[9] A tough line was taken on commitments for the Allies, for it was now accepted as imperative to guard against the escalation of new obligations given the expected build-up of forces in the South-West Pacific Area for the final thrust against Japan. No facilities were to be provided for the training and maintenance of Portuguese troops in Australia for the liberation of Timor; the Production Executive was to examine in detail the proposal to station Netherlands forces in Australia; the Americans were urged to accelerate the release of facilities under their control in favour of the British to avoid the need for new construction to accommodate the Royal Navy.[1] In the same vein, the War Cabinet in July dug its heels in over a request by the Royal Navy for an additional works programme, arguing that existing facilities should be used and that it was not prepared to delay any further the reconstruction housing programme.[2]

On Churchill's assumption that the war against Japan would last for eighteen months after the defeat of Germany, another manpower budget was prepared for the second half of 1945.[3] The War Cabinet raised the target figure for special releases to 64,000, and laid down progressive totals to be achieved month by month.[4] The budget was adopted on 28th June, for the first time before the beginning of the planning period. Also for the first time reconstruction was at the top of the list of priorities. But the first atomic bomb was dropped on Hiroshima on 6th August; the offensive against Japan ceased on the 15th (V-J Day); and on the 17th the War Cabinet ordered the beginning of general demobilisation. The determination in mid-1945 to achieve positive progress with reconstruction preparations had come too late.

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[8] War Cabinet Minute 4220, 31 May 1945.

[9] War Cabinet Minute 4237, 5 Jun 1945.

[1] War Cabinet Minute 4223, 31 May 1945.

[2] War Cabinet Minute 4328, 11 Jul 1945.

[3] On this occasion the Industrial Sub-Committee was far more cautious in its estimation of supply and allocation of labour, and emphasised that all estimates were subject to a wide margin of error. Further, adequate provision was made for the first time for non-effectives and other manpower leakages. This was in marked contrast with previous attempts at manpower estimation which were framed in terms of the *maximum* that was likely to be achieved.

[4] War Cabinet Minute 4291, 28 Jun 1945.

There was no delay in repealing the bulk of the Manpower Regulations. The regulations had become thoroughly unpopular, and the Government was well aware of the political cost of any delay. The power to direct labour and the requirement of civilian registration was abolished on 17th August, and about one-half the 22,000 protected undertakings were "de-protected" at the same time. The remaining 11,000 were "de-protected" in October, and reservation was also dropped. Because of continuing labour shortage in the first post-war months, restrictions on the engagement of labour continued in force until early 1946.[5] The Director-General of Manpower remained in office until the controls had been removed, but most of the administrative work involved in the orderly removal of restrictions was undertaken by the newly established Commonwealth Employment Service.

Similarly, there was no undue delay in the dispersal of men and women from the fighting forces. As discussed elsewhere, the War Cabinet had approved the general principles which should govern demobilisation in June 1944.[6] The maximum rate of dispersal was set at 3,000 per day, a figure determined by the capacity to conduct pre-discharge medical examinations. Priority for discharge was determined by a system which allotted points on the basis of length of service, age at enlistment, and marital status. Discharge began in October 1945 and by the end of June 1946 was eighty per cent complete; dispersal of the remainder was completed by 15th February 1947. Between August 1945 and February 1947 the strength of the Services had fallen from 598,300 to 60,133. Demobilisation was conducted quickly and efficiently, and there was little of the avoidable delay which had been such an unhappy feature of dispersal after the war of 1914-18. For various reasons, such as disablement and admission to the Commonwealth Reconstruction Training Scheme, many who were demobilised did not immediately seek civilian employment. Many of those who did were required to replace women and older men who had discontinued employment at the end of the war. Nevertheless in the two years between the Occupational Survey of June 1945 and the Census of June 1947, civilian employment increased by a substantial 451,700 or by 17.1 per cent without any significant addition to the number unemployed. This reflected above all the enormous back-log in the demand for labour.

POPULATION

Despite the apprehension about post-war employment prospects, the foundations were laid during the war for the resumption of large-scale immigration as soon as possible after the completion of demobilisation and re-employment. The fact that immigration policy was taking shape in 1943 and 1944, at a time of continued gloom about post-war economic prospects, is testimony to the strength of the Australian faith in development through population growth; it also bears witness to the contemporary

[5] The last element of manpower control, the engagement of women between the ages of 18 and 45 years, was removed on 30 Apr 1946.

[6] Hasluck, *The Government and the People 1942-1945*, pp. 612-17.

notion that defence of the country would be more effective with a population well in excess of the 7,300,000 of 1943.

Concern about population growth was sharpened by the decline in the rate of natural increase since the nineteenth century. In the years immediately before the war of 1914-18 Australia had experienced one of the highest rates of natural increase in the western world at around 17 per thousand, but this had declined sharply to a low point of 7 per thousand in 1934. By 1944 the rate had risen to almost 11.5 per thousand, but contemporary forecasts were that the wartime rise would not be sustained and that after the war fertility would be barely above replacement level.[7] Apart from military and economic considerations, such a situation if allowed to eventuate was regarded as morally indefensible given Australia's "wide open spaces". In 1942 a number of politicians spoke in emotional terms about the need for an increase in population to 20,000,000 in fifteen to twenty years. As L. F. Giblin pointed out in a paper for the Financial and Economic Committee, an increase to 20,000,000 in fifteen years implied a rate of population growth of six per cent per annum, the arrival of about 11,000,000 immigrants within this period, and a substantial reduction in consumption to allow for the construction of housing, schools, and urban facilities to provide for such an unprecedented rate of population increase.[8] Giblin suggested tentatively that the most that could be reasonably expected was the restoration of the rate of natural increase to one per cent per annum, and an immigration rate of about one per cent of population. These estimates were based on rough figuring and were not intended to form the basis of policy. But it was not long before two per cent per annum was accepted as the official post-war population growth objective.

Active consideration was initiated, however, by the United Kingdom Government. In April 1943 the Secretary of State for the Dominions asked whether the Australian Government would be willing to resume Empire settlement after the war.[9] The immediate point of the British request was to be able to satisfy the desire of those ex-service men and women who wished to emigrate to a Dominion after demobilisation. The Dominions Office indicated that the United Kingdom would grant free passage to those people and their dependants who wished to migrate. At the same time the general question of post-war migration was raised, and an indication was given that the United Kingdom would participate in the cost of any agreed scheme. But a warning was given that future migrants would expect to receive a higher standard of settlement assistance than had been available in the past, and that those from the United Kingdom who had qualified for social insurance benefits would expect immediate admission to the corresponding local scheme.

The Australian response was enthusiastic. All those involved accepted without question that large-scale immigration should be resumed after

[7] See Report of the National Health and Medical Research Council, 1944; and W. D. Borrie, *Population Trends and Policies* (1948).

[8] Financial and Economic Committee, paper 43a.

[9] Dominions Office Despatch No. 24, Apr 1943.

the war. The question was not whether the British invitation should be accepted, but the extent to which the door should be opened. The United Kingdom had also been afflicted by a decline in fertility, and the Department of the Interior concluded regretfully that British migrants would not be as plentiful as in the past. The conclusion was that substantial "white alien" immigration would be required, and that ways of easing the entry of these people to Australia should be considered.[1] In October 1943 the Full Cabinet appointed an inter-departmental Committee on Migration Policy.[2] The committee was instructed to prepare information on such matters as the absorptive capacity of domestic secondary industries, the assistance to be given to British immigrants, and the administrative machinery to be established in London to deal with applications. By implication the decision endorsed the principle of large-scale British immigration; the question of alien immigration was deferred.

Policy details for migration from the United Kingdom were set down by the Full Cabinet in May 1944 for use by Curtin at the Commonwealth Prime Ministers' Conference in London.[3] A few minor changes were made subsequently, but this remained the basis of the formal United Kingdom-Australian migration agreement announced in March 1946. The more important decisions were (i) acceptance of the United Kingdom Government's offer of free passage for medically fit British ex-service men and women and their dependants who wished to migrate to Australia, (ii) creation of an assisted passage scheme for other British people to the extent that no approved applicant would be required to pay more than £10 sterling for their passage, the cost to be shared equally between the United Kingdom and Australia, (iii) establishment of machinery in the United Kingdom and elsewhere for the administration of the schemes, including the issue of information about employment opportunities, (iv) development of co-operation with the States and voluntary organisations for the "reception, placement and after-care" of all British migrants, and (v) exploration of the question of reciprocity in the area of social security benefits. At the same time Cabinet endorsed a recommendation by the inter-departmental committee in favour of treating Maltese in the same way as other British immigrants so long as they had a working knowledge of English.[4] It sensibly rejected a proposal by the Freeland League for Jewish Territorial Colonisation to establish an exclusive Jewish settlement in the Kimberleys, Western Australia.[5]

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[1] Before the war the Government required intending alien immigrants to possess a landing permit in addition to the normal visa. Further, nominated aliens were required to hold at least £50 of landing money, and those without a guarantor to hold at least £200. These were stringent entry requirements, particularly in the nineteen thirties.

[2] Full Cabinet decision, 20 Oct 1943 on Agendum 538. The committee comprised representatives of the Departments of the Treasury, Post-War Reconstruction, External Affairs, Interior, Social Services, and the Repatriation Commission.

[3] Full Cabinet decision, 1 May 1944, on Agendum 538A.

[4] The subject of Maltese migration was submitted for early decision because the matter was expected to be raised at the Prime Ministers' Conference, and because there had been discrimination against Maltese on the grounds of colour before the war. Maltese were brought within the free and assisted passage schemes by Full Cabinet decision, 2 Feb 1945, on Agendum 538E.

[5] For an ancedotal account of the efforts of Dr I. N. Steinberg to obtain approval for the settlement, see A. A. Calwell, *Be Just and Fear Not* (1972), Ch. 13.

Adding to these decisions, approval was given in November 1944[6] for acceptance of British and European "child migrants"—usually orphans and others who had been separated from their parents. The intention was to collaborate with British and European governments, and bodies such as U.N.R.R.A., for the immigration of an average of 17,000 children a year during the early post-war years. Alien children between the ages of six and twelve, and British children between the ages of six and fourteen, were to be assisted by means of passage and maintenance. Before the war the Government had been involved in a small child migration scheme; the decision represented an enlargement of this humanitarian work. It was also believed that this was an effective way of increasing the fertility rate in the future.

The Government was much more cautious in its approach to the sensitive matter of white alien immigration. The inter-departmental committee completed its report on this subject in January 1944.[7] It reiterated a previous conclusion that the United Kingdom would not be able to supply migrants in sufficient numbers to fulfil Australia's population growth objective, and added that there would also be insufficient available from the countries of north-western Europe. The committee concluded:

> So great is Australia's need for population that it cannot afford to be too exclusive as to categories to be regarded as eligible for admission, . . . the Commonwealth should be prepared to accept any white aliens who are considered likely to assimilate and contribute satisfactorily to economic development, and against whom there are no objections on the grounds of health, character or (while the ban is in force) enemy alien nationality.

Thus, southern and eastern European countries were expected to provide the main source of supply. But Italy, Rumania, Bulgaria and Hungary were members of the Axis; Poland, Czechoslovakia and Yugoslavia were under Nazi rule. Alien migration policy could not be defined at this stage, and in November 1944 Cabinet appointed a sub-committee to keep the subject under review.[8]

Despite the uncertainty about white alien migration, post-war immigration policy had taken shape by the end of 1944. The Government was firmly committed to the resumption of large-scale immigration as soon as possible after the war, preferably from the United Kingdom and north-western Europe but also from southern and eastern Europe if this became necessary as appeared likely. There had not been much thinking about the desired rate of population growth or about the appropriate rate of immigration. But it was a widely held assumption by ministers and officials that Australia should aim to double her population by the end of the century. The only quantitative merit in this aim was that it appeared to be within reach given a moderately successful immigration programme.

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[6] Full Cabinet decision, 26 Nov 1944, on Agendum 538C.
[7] Full Cabinet Agendum 538B.
[8] Full Cabinet decision, 10 Nov 1944.

This implied an immigration target of about 60,000 a year.[9] It was not possible to determine in advance whether this number could in practice be absorbed without endangering employment stability, and the Government had opted for a step-by-step approach. First priority would be given to the absorption of ex-servicemen and former munitions workers, and to acceptance of a limited number of British ex-servicemen demobilised in Australia, political refugees and child migrants. Next in importance were British ex-servicemen and civilians required to travel from the United Kingdom. It was expected that shipping difficulties would be encountered immediately after the war, and this would allow time to assess the absorptive capacity of secondary industry. The lowest ranking was allotted to European aliens within which was contained a further ranking which sloped downwards from north-western to south-eastern Europe. Additional time was available to consider the required level of this type of immigration because many of the traditional emigrant countries were members of or affiliated with the Axis. Migration from these countries could not commence until after the conclusion of a formal peace treaty.

The importance attached to the immigration programme was given formal expression by the creation of the Department of Immigration on 13th July 1945. The Minister for Information, A. A. Calwell, was chosen to head the new department. Calwell continued to hold the Information portfolio. The linking of Immigration and Information was of more than passing significance. Calwell had been consulted on immigration matters and was a member of the Cabinet sub-committee on white alien migration because it was accepted from the outset that publicity would be a vital element in the programme. Indeed, the largest task before the new department was to convince the people, particularly trade unionists, that a high rate of immigration was consistent with the preservation of full employment. Calwell had also to overcome the entrenched Australian suspicion of foreigners. He set about this task with skill and imagination, but it should not be forgotten that Calwell's success was due largely to the labour shortage which persisted for the remainder of the nineteen forties.

The Ministerial statement of August 1945 on post-war population policy[1] amalgamated the various assumptions and decisions of 1943 and 1944. The population growth target was set at 140,000 or two per cent per annum to be achieved about equally by natural increase and by immigration. Thus Giblin's maximum feasible rate had been accepted as the long-term objective. The immigration programme of 70,000 a year would not be realised for several years, however, because of shipping difficulties. This would allow time for absorptive capacity to be determined by trial and error, and for immigration from non-British countries to be phased in gradually. Calwell was vague in his statement about the likely extent of foreign immigration, but he did make clear that the programme would have a new dimension. In practice, little time was lost in broadening the

[9] This figure was given by the inter-departmental Committee on Migration Policy in its report on "White Alien Immigration", Jan 1944.

[1] *Commonwealth Debates*, Vol. 184, pp. 4911-15.

immigration base. Such was the demand for labour in 1946 and 1947 that the wartime fear of an early depression was soon dissipated. In 1946 Calwell toured the United Kingdom and the Continent in search of potential migrants. In December 1946 the Government approved an agreement with the Netherlands Emigration Foundation to bring Dutch farmers to Australia. In March 1948 peace treaties were concluded with Italy, Rumania, Bulgaria and Hungary which opened the way for admission of nationals of these countries. In September 1949 approval was given for acceptance of nominated migrants from Germany and Austria. Immigration increased from 31,765 in 1947 to 167,727 in 1949. The marriage of full employment and rapid population growth had been consummated.

CHAPTER 23

RECONSTRUCTION—THE FEDERAL DIMENSION

A NUMBER of key proposals for the creation of greater economic security and equality after the war depended for their successful introduction on close collaboration between Federal and State governments. In such fields as "national" public works, regional planning, housing, education and rural development, the constitutional authority resided with the States. In a few instances such as reconstruction training and soldier settlement the States were willing to co-operate, usually because the Commonwealth accepted a major share of the financial responsibility. But in others the Government was inclined to assume unrealistically that the States would accept Commonwealth leadership "in the national interest", while for their part the States were intent primarily on reasserting their constitutional identity which had been submerged during the war. Commonwealth-State negotiation was not without useful result, but resurgent federalism took a heavy toll of reconstruction planning.

NATIONAL WORKS

Of all the proposals which involved Commonwealth-State collaboration, the Government attached greatest importance to the creation of a National Works Council. Commonwealth authority over national works was sought in the 1944 referendum because of the relationship between works expenditure and the maintenance of high employment. The White Paper on Full Employment in Australia envisaged, it will be recalled, the use of public works to prevent the growth of unemployment. Public works were divided into two categories: high priority long-term projects which would be initiated independently of employment conditions; and lower priority projects, usually of a short-term nature, which could be commenced quickly when needed to generate additional employment. Both categories were to be under the control of the National Works Council, but it was the second—the works "reservoir"—which was to supply the underpinning for full employment.

The idea had originated with the Reconstruction Division of the Department of Labour and National Service as early as 1941. At the first meeting of the Development Co-ordinating Committee on 20th November of that year a special sub-committee representative of those Commonwealth departments concerned with works was instructed to prepare a schedule of projects which could be initiated after the war to cushion the impact of demobilisation. From the outset the scheme was intended to supplement the normal investment programme authorised by the Loan Council so as to provide a general stimulus to the private sector rather than absorb ex-servicemen directly.

But inherent in the proposal were constitutional and administrative problems of some delicacy. First, works expenditure had been virtually an exclusive preserve of the States subject only to borrowing authorisation

by the Loan Council. After the change of government in 1941, the Commonwealth envisaged that it would play a larger part in financing "national development". Yet the co-operation of the States was still vital, failing a constitutional amendment. Following the imposition of uniform taxation, however, the States were likely to view with the utmost suspicion any further bid by the Commonwealth for greater control in the financial field. Second, if the "reservoir" was to serve its purpose adequate administrative machinery had to be developed to initiate projects of an appropriate scale with a minimum of delay. Further, the machinery would have to discriminate between States and within States, for the scheme was intended to mop up regional as well as national unemployment. One possibility was to extend the functions of the Loan Council. The Council's Co-ordinator-General of Works, Sir Harry Brown, had developed wartime machinery for restricting the capital expenditure of the States which could be adapted to administer the "reservoir". Alternatively a separate Commonwealth-State authority could be established entirely independent of the Loan Council.

When the subject was revived by the Reconstruction Division in mid-1942, the Curtin Government preferred the creation of a separate authority. The Prime Minister supported the formation of a national works commission, partly to underscore the importance of the task and partly to separate financial control from determination of the volume of employment to be created. Beyond this little progress was made in blueprinting an institution within the framework of Commonwealth-State collaboration. The Department of Post-War Reconstruction emphasised at the beginning of 1943 the importance of preparing a priority listing of fully-engineered works, but was inclined to assume that appropriate machinery could be devised somehow. However there was a firm conviction that the major share of the responsibility for deciding the timing and volume of works should fall on the Commonwealth. Prevention of unemployment was accepted as a national obligation and the commission's decisions were to be based on national criteria. The Government also had a vague idea that the wartime system of works co-ordination could become a permanent feature.

Thus, Curtin and Chifley were vague about the details when they outlined the need for a national works organisation at the Premiers' Conference on 14th July 1943. To some extent the vagueness was deliberate. By not presenting the idea as a *fait accompli*, they hoped that the Premiers would arrive at an acceptable solution of their own volition. The Government's hopes were pinned on the willingness of the States to co-operate. Naïve as the assumption proved to be, the Commonwealth was convinced that no State would refuse to co-operate in an arrangement which was regarded as the main safeguard against mass unemployment.

At the conference the Minister for Post-War Reconstruction suggested simply that a central authority be established immediately to receive lists of projects from state, local and municipal authorities as well as from

the Commonwealth itself. Each project would then be allocated a priority. Those approved for incorporation in the plan were to be returned for completion of detailed engineering work. Predictably, non-Labor Party Premiers were convinced that this was a device to abrogate the authority of the States. In fact, of course, the proposal was merely intended to ensure that advance preparations were made and to enable some pressure to be brought to bear on the States and other authorities. Once the priority system had been established, it was hoped that there would be general adherence to it. But the unavoidable weakness was that the States were not bound to accept any priority rating or Commonwealth representation as to timing.

On the assurance that the States were not bound, the Premiers accepted the formation of a National Works Council. The composition was the same as the Premiers' Conference with the Prime Minister as chairman. As the States were not prepared to delegate to the Co-ordinator-General of Works sole responsibility for determining priority ratings, a cumbersome procedure was adopted to smooth ruffled feathers. Once States had vetted their own lists they were to be sent to the Prime Minister, who would then send them to Sir Harry Brown as Co-ordinator-General. Sir Harry would consult with the six State Co-ordinators to prepare a consolidated list for recommendation to the National Works Council. The list would show not only the Co-ordinators' priorities but also those claimed by the States. After any modifications by the council, the lists would then become recommendations to governments.[1]

For a time the procedure worked reasonably well. At the council's first meeting in January 1944 the Co-ordinator-General was appointed Co-ordinator-General of the National Works Council (with administrative staff drawn from Post-War Reconstruction), thus maintaining a close link with the Loan Council.[2] The authority and respect which Brown commanded helped facilitate the inward flow of projects and the allocation of priorities. In association with the State Co-ordinators, a standardised form was prepared designed to show among other things the amount of employment that was likely to be generated. Because of wartime deferment of capital and maintenance expenditure of public works there was no shortage of proposals, but the bulk of projects were allocated an "A" priority by sponsoring authorities, and Brown expressed some concern in his first report that the structure of the "reservoir" was likely to become unbalanced.[3] By mid-1944 classified proposals received amounted to an estimated labour content of 6,060,000 man-weeks; of these proposals 56 per cent were classified priority "A", 31 per cent priority "B", and 13 per cent priority "C".[4] Because of the shortage of technical staff only

[1] "Proceedings of the Conference of Commonwealth and State Ministers", Melbourne, 14-15 Jul 1943 (mimeographed), pp. 1-35.

[2] Sir Harry Brown resigned as Co-ordinator-General of Works on 22nd Aug 1945 and was replaced by C. A. Hoy.

[3] First report of the Co-ordinator-General of Works to the National Works Council, 17 Jan 1944.

[4] Second report of the Co-ordinator-General of Works to the National Works Council, 21 Aug 1944.

about 40 per cent of projects had been engineered to the point ready for tenders to be called. The proportion was not increased by the end of the war or in the early post-war years. Even so a reasonable reserve stock had been accumulated fairly quickly.

Some of the unresolved procedural matters were clarified during the three wartime meetings of the council. At the Premiers' Conference in July 1943 the Commonwealth had been deliberately vague about finance. The Premiers were of course hopeful that the Federal Government would meet a proportion of the cost. Indeed, from time to time Chifley dangled the carrot of Commonwealth assistance to encourage the States to toe the line. Specifically, he was fond of using the expression "national works" in two distinct ways. When encouraging the States to co-operate, the works "reservoir" was referred to as the "national works programme"; but when the Premiers had their hands held out the definition of national works was narrowed to large interstate or defence projects for which the Commonwealth was entirely or largely responsible. When pressed the Government made plain that in ordinary circumstances finance would be secured in the usual way—from revenue, trust funds, or through the Loan Council. With the financial reserves of the States expected to be in a healthy condition at the end of the war, Chifley in his dual ministerial capacity was careful to avoid any post-war commitment. Reading between the lines, however, it seemed reasonably clear that the Commonwealth would not hesitate to assist financially if heavy unemployment threatened.

The manner in which investment criteria were determined is a more elusive subject. Even though some Post-War Reconstruction officials had been anxious to create a central works authority capable of influencing investment allocations on a national scale,[5] the Constitution erected an effective barrier. But Commonwealth ambitions in this area were usually close to the surface. Thus, an early attempt was made to use the National Works Council's machinery to dissuade the States from investing heavily in commercially untried rural industries. Before irrigation and land settlement schemes were initiated, the States were urged to consult the proposed Commonwealth Bureau of Agricultural Economics on marketing prospects with the implication that Commonwealth financial assistance would be more readily forthcoming if the advice was followed. A clearer example is the strong pressure that was exerted on all authorities not to initiate low priority works which would tend to draw men and materials away from housing construction. Indeed, in the early post-war years as much of the council's time was spent on this task as on the maintenance of the works "reservoir". The management of investment resources in this way was only possible, however, because of the consensus in favour of the housing programme. In other circumstances moral suasion was rarely successful.

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[5] The idea canvassed at ministerial level within Post-War Reconstruction in March-April 1943 was that a national works commission be established solely as a Commonwealth body which would be responsible, not only for preparing the "reservoir", but also for planning a national investment programme. The commission was to be constituted under National Security Regulations on lines similar to the Rural Reconstruction Commission.

Fortunately it was not necessary after the war to use the "reservoir" for employment absorption, and the main weakness in the council's machinery—the inability to influence directly the timing or regional distribution of works expenditure—was not exposed. Every effort was made at the Commonwealth level to sustain enthusiasm for the "reservoir" in the early post-war years, and to improve the proportion of fully-engineered projects. At the end of the war the value of works "in stock" amounted to £249,060,000, a figure which was reasonably well maintained for a number of years. But by 1947 interest was declining and by the early 'fifties the National Works Council and the idea of national public investment planning had become a dead letter, a casualty of the attainment of full employment and of the federal system.

The Council's contribution to the early stages of reconstruction, however, should not be dismissed. Forward planning of public investment was an important innovation. It permitted a more systematic examination of proposed projects than had been possible previously, and the "reservoir" was a useful safety net. Further, advanced preparations assisted the fairly rapid transfer of resources to high priority post-war works, and influence was exerted on the composition of expenditure in favour of the housing programme. To be sure, the council's machinery was cumbersome and incomplete, but its demise left a conspicuous gap in the instruments of public economic organisation.

While in one sense cutting across the efforts of the National Works Council, one major project received vigorous support by the Commonwealth—standardisation of railway gauges. It was a hardy perennial. A royal commission in 1921 had recommended standardisation, and there had been further talk in 1936, but nothing was done on either occasion. The matter was revived early in 1944 because of Army frustration with the waste of time and effort in constant reloading. For defence reasons the Minister for the Army recommended urgent consideration be given to standardisation of a limited number of important connections: Kalgoorlie and Fremantle, Western Australia; Port Pirie, South Australia and Broken Hill, New South Wales; and the long link between Bourke, New South Wales and Mount Isa, Queensland, via western Queensland and then to the coast at Townsville. (This was intended to provide an alternative to the vulnerable Queensland coastal line.) Ward reacted enthusiastically largely because of the employment possibilities. Full Cabinet was also receptive for a mixture of defence and employment reasons. Sir Harold Clapp was appointed to report on the extent of conversion that should be undertaken and the possibility of constructing new standard (4 foot 8½ inch) gauge lines.[6]

When completed in April 1945 Clapp's report was more ambitious than had been anticipated. First priority was given, as expected, to the completion of the standard gauge transcontinental linkage from Sydney

[6] Full Cabinet Agendum 629; meeting 14 Mar 1944.

to Fremantle by the construction, alongside the existing line, of an independent 4 foot 8½ inch gauge line from Kalgoorlie to Fremantle, and by conversion of the Port Pirie to Broken Hill line (including acquisition of the Silverton Tramway Company's private line). The Director-General of Land Transport also accepted the military and development argument in favour of the long inland connection between Bourke and Townsville via Cunnamulla, Charleville, Longreach and Winton; and another such line from Dajarra, Queensland, via the Barkly Tableland to Birdum, Northern Territory, to link up with the north-south route. Further, he proposed the conversion of the entire 5 foot 3 inch gauge in Victoria and South Australia, and the modernisation of the main existing routes, and upgrading of locomotives and rolling stock. The whole programme was expected to be completed in about eleven years at a cost of around £77,000,000. Paramount in all cases were strategic considerations based on current war experience.

Despite the scale of Clapp's scheme, the Cabinet's enthusiasm was undiminished and the whole programme was adopted for commencement as soon as possible after the end of the war.[7] The only rider was that resources were not to be drawn away from housing. As far as can be determined, the project was not submitted to the National Works Council, and the mounting evidence of chronic shortage of labour and materials (including railway sleepers) was largely ignored. Further, scant attention was given to the reasonable claim of state Ministers for Transport that priority should be given to refurbishing exising dilapidated systems. The decision was taken in a vacuum.

Fanciful, too, was the adoption of the 1921 formula for sharing costs: one-fifth by the Commonwealth, and four-fifths by the States distributed between them on a *per capita* basis. Admittedly this was an opening gambit for the Premiers' Conference of August 1945, and in the event the Government was prepared to contribute one-half. The conference referred the proposal to a Commonwealth-State committee,[8] and at a further conference in May 1946 the Commonwealth failed to reach agreement with Queensland and Western Australia about the distribution of cost. Even though the exclusion of these two States destroyed much of the defence significance of the project, the Government decided to go ahead with New South Wales, Victoria and South Australia on a fifty-fifty basis. The *Railway Standardisation Agreement Act* was passed by Parliament in August 1946 but it was many years before the first major result—a standard gauge connection between Sydney and Melbourne—was achieved.

REGIONAL PLANNING

The preparation of a post-war plan of public works through the National Works Council was not restricted to the accumulation of an adequate stock of projects. An additional planning objective was the

[7] Full Cabinet Agenda 629B and C; meetings 17 Apr and 2 Jul 1945.

[8] *Proceedings of the Conference of Commonwealth and State Ministers*, Canberra, 20 to 23 Aug 1945.

classification of works on a regional basis so as to ensure that works were sufficiently dispersed geographically to enable a uniformly high level of employment to be maintained throughout the country. The emphasis on regional full employment was not only important for its own sake. It meshed with a number of other policy objectives such as decentralisation, population growth, the promotion of water conservation, and the control of land settlement schemes. Moreover, the need for the "balanced" regional development of the continent had been a deep Australian conviction ever since the arrival of the First Fleet. In the nineteen forties the conviction was sharpened because regionalism was fashionable internationally, and because of the fear of a renewed "yellow" invasion from the north.

The Department of Post-War Reconstruction, however, was uneasy about becoming involved. The subject was clearly one for the States, and the sceptics had little difficulty in revealing the slender intellectual content of the literature on regionalism. Nevertheless, the advocates were able to exploit Chifley's tenderness for new ideas, and the relationships between industrial decentralisation, town planning, and regional policy. A Division of Regional Planning was formed within Post-War Reconstruction during October 1944. The division had few clearly defined functions, and only a handful of staff. It was to be concerned with the compilation of resources surveys, analysis of specific regional proposals, and preparation of development plans (in association with other departments) for areas such as northern Australia for which the Government had a special responsibility. In practice its most useful role was in helping representatives of the States to get together to discuss matters of common interest, and in acting as umpire when interstate disputes arose.

Conferences of regional planning liaison officers were held under Commonwealth auspices in October 1943 and April 1945. The first of these led to a series of resolutions adopted by the Premiers' Conference in October 1944. These were intended to encourage the States to proceed with the definition of boundaries, and to relate decentralisation and administrative units to these boundaries; to supply planning information to the Government; to promote formation of regional advisory bodies; and to undertake comprehensive resources surveys of important regions.[9] Most of the States had already established planning authorities, and were engaged in drawing lines on maps; but resources surveys were handicapped by the familiar manpower problem. At the Commonwealth level the interest in resources development was a factor in the creation of the Bureau of Mineral Resources, Geology and Geophysics, under Dr H. G. Raggatt[1] in 1946; and in the conduct of land use surveys by the Council for Scientific and Industrial Research immediately after the war. But these were the first tentative steps in long-term projects. The wartime

[9] *Proceedings of the Conference of Commonwealth and State Ministers*, Canberra, 3 to 5 Oct 1944.

[1] Sir Harold Raggatt, CBE. C'wealth Geol Adviser 1940-51; Dept Supply and Bur Min Resources 1942-51; Secty Dept Nat Develpt 1951-65; Depty Chmn Aust Atomic Energy Comm 1957-65; Consult Geol to BHP Co from 1965. B. North Sydney, 25 Jan 1900.

exchange of information was useful to the Secondary Industries Commission, the National Works Council, the Manpower Directorate and its successor the Commonwealth Employment Service. However, the strongest impression is that in the nineteen forties the exchange of regional planning information led to the creation of filing cabinet fodder.

The promotion of interstate collaboration was occasionally more rewarding. The outstanding example was the agreement eventually achieved for tighter control of Murray River waters. The Government's involvement derived from the 1915 River Murray Agreement between the Commonwealth, New South Wales, Victoria, and South Australia for development of the irrigation potential of the Murray Valley. The Murray and its tributaries had already been locked at numerous points, and under discussion in 1944 was further development including a proposal by New South Wales to raise the wall of the Hume Weir to enlarge storage capacity from 1,250,000 to 2,000,000 acre feet. Federal financial assistance was invited. As the proposal had implications for war service land settlement, post-war works and regional planning, the Government sought to impose more rigorous control of the catchment area and of irrigation waters than had been possible through the Murray River Waters Commission. In substance the Commonwealth's claim was that New South Wales had not exercised adequate control over the catchment area. Excessive tree felling and burning had been permitted which had led to silting of the lake and the river.

The scheme outlined to the States in 1945 brought together several strands of reconstruction policy. As a condition of Commonwealth financial assistance, the Government insisted that there should be an adequate survey of land use and potential markets so as to justify the production expansion which the increased availability of water would make possible. Further, control should be vested in a reconstituted authority with specific powers conferred on it by the four participating governments, and provision should be made for the election of local representatives to the authority. The Government envisaged that decisions of the authority should only be upset by a resolution passed by both houses of any of the four parliaments. Finance would be made available by the four on an agreed basis, but the authority was to have power to impose taxation within the region if it wished to accelerate the rate of development. In this way Post-War Reconstruction believed that Murray Valley development could be based on sound economic principles, and at the same time an element of regional control and independence would be obtained.

Initially progress was blocked by New South Wales and Victoria who objected to Commonwealth interference and the partial surrender of autonomy. Nevertheless, surveys were carried out in 1947 and 1948 and the verdict was favourable for the completion of the Hume Dam. Agreement was reached in October 1948 for the formation of a River Murray Commission to replace the old authority. The commission was not given

all the power sought for it by the Commonwealth, but New South Wales and Victoria agreed to report annually on the condition of the reservoir and to take any special action recommended by the commission as a condition of the work proceeding with Commonwealth money.

Most of the other plans for regional development ran into more intractable difficulties. The most ambitious of these was the abortive attempt to collaborate with Queensland and Western Australia in the development of northern Australia. Following speeches by the Prime Minister in 1944 and 1945 emphasising the defence importance of the area, a Northern Australian Development Committee representative of the three governments was formed at the end of 1945. The committee produced within its first few meetings a standard list of the disabilities of the tropical north, and Queensland and Western Australia reached the conclusion that in view of their loss of income taxation powers the Commonwealth would have to find the bulk of the capital for any agreed programme. In view of the current strain on Commonwealth resources, northern Australian development quickly sank to a low order of priority.

In a different category was a Western Australian proposal first mooted in 1944 to dam additional water in the Darling Range for supply to country towns and farming regions of the south-west of the State. No interstate matter was involved; the State was interested in financial assistance from the Commonwealth. As with other Western Australian proposals such as the Ord River irrigation scheme, information supplied by the State was vague and the project had not been adequately researched.[2] By 1947 Commonwealth intervention had resulted in a substantial overhaul of the details and the adoption of a much more modest project.

The Snowy Mountains hydro-electric and irrigation scheme was in its formative stages at the end of the war, but the story of the negotiations which led to agreement in 1949 falls outside the scope of this volume.

As these examples illustrate, the Division of Regional Planning was unable to make any real progress in its specified area of responsibility. It could prod and encourage the States, but only in circumstances of direct Federal involvement could it make an impact. By the early post-war years the character of the division had changed. Of necessity its centre of interest had shifted to the promotion and examination of "national" works in association with other departments and the National Works Council. The division thus provided the nucleus for the post-war Department of National Development.

HOUSING

A major part of the national works programme was intended to be a comprehensive scheme for the construction of public and private housing. The Government was acutely aware of the huge back-log of housing caused

[2] For example, Western Australia had not considered the possibility of a number of rivers in the catchment area turning salty. Salt was also to appear later in the Murray River irrigation scheme with disastrous effect.

by the abnormally low level of building in the 'thirties and the almost complete cessation of civilian construction since 1941, a problem which would be magnified after the war by demobilisation, a bulge in the marriage rate, and the resumption of large-scale immigration. There was concern, too, about the extent of sub-standard housing, and a desire to improve the quality of housing available to low-income families.

The first step was the appointment of the Commonwealth Housing Commission in April 1943 with L. P. D. O'Connor[3] as chairman[4]. Appointed as a commission of inquiry and attached to the Department of Post-War Reconstruction, the commission's terms of reference were brief and all embracing: to inquire into and report on the present housing position in Australia; and the housing requirements of Australia during the post-war period. These instructions were intended to lead the commission to prepare a national housing plan; the problem of Commonwealth-State collaboration was at this stage of secondary concern.

The commission presented interim reports in October 1943 and March 1944, and a comprehensive final report in August 1944. Reflecting the utopian optimism of the early stage of post-war planning, the final report covered a very wide field and envisaged the creation of a Commonwealth Planning Authority which would be concerned not simply with housing but the whole field of post-war planning including primary and secondary industries, national works, "the general economic structure of the community", regional and town planning, and the co-ordination of the work of State governments.[5] Within its own sphere the report concentrated on the size of the housing shortage, the post-war programme of construction, public provision of housing for low-income families, regional and town planning, land acquisition, building standards, slum clearance, and community facilities (especially for new housing areas). The commission based its work on the assumption that "a dwelling of good standard and equipment is not only the need but the right of every citizen—whether the dwelling is to be rented or purchased, no tenant or purchaser should be exploited by excessive profit". As high-income families were able to make their own financial arrangements and middle-income families were reasonably well served by banks and building societies, the commission concentrated on the needs of low-income groups. The report's many recommendations were not supported by closely reasoned argument, but the document was an imaginative expression of contemporary egalitarian and urban planning ideals. Most of the proposals, however, were beyond the Government's constitutional and financial capacity.

Because of the need for early decision, the Housing Commission's first interim report had most influence on initial planning. Main recommendations were divided into two groups: a suggested building programme on the basis of rough estimates of the size of the building shortage, and

[3] L. P. D. O'Connor. Mgr State Advances Corp Brisbane 1933-43; Chmn C'wealth Housing Comm 1943-44; Dep Dir Housing; Dir Dept Works and Housing from 1944. B. Murtoa, Vic., 11 Apr 1890.

[4] Other members were J. S. Gawler, C. V. Howard, Mrs. M. M. Ryan, and A. V. Thompson; secretary Mrs M. W. Phillips. Executive Officer was W. R. Bunning.

[5] Paras 190-7 and 204-6 of the Final Report.

proposals for housing subsidies for low-income families. While acknowledging statistical deficiencies, the commission estimated the stock of housing at 1,800,000 dwelling units (inclusive of about 100,000 sub-standard units), and a "shortage" of about 300,000 units by January 1945 (inclusive of replacement of sub-standard homes).[6] The commission suggested early commencement of an "immediate relief" or wartime programme on a scale as large as resources would permit, an "immediate post-war programme" with a target of 50,000 dwelling units completed or under construction by the end of the first post-war year, and a "long-term programme" with a target of 80,000 units by the third post-war year.[7] Of the 50,000 units for the first post-war year, 30,000 were to be built under government sponsorship for low-income families. The rent of these houses and flats was to be subsidised by the Commonwealth by means of special purpose grants to State governments, and for this purpose (and to assist general planning) the commission recommended the setting up of a permanent Commonwealth housing authority. A subsidiary proposal, the establishment of an experimental building station to help improve construction techniques, was endorsed by the Full Cabinet in March 1944.[8]

In accepting the urgency and magnitude of the task, the Full Cabinet responded with a minimum of delay. In October 1943 authority was given for the initiation of the first phase of the commission's plan, the wartime programme intended to reduce the housing backlog before the end of the war.[9] In December Cabinet "accepted the principle of financial assistance by the Commonwealth to State, local and other approved authorities to assist the provision of suitable housing for those on low incomes and/or with large families".[1] This was intended to cover the public sector component of the immediate post-war and the long-term programmes, and involved negotiations with the States for a Commonwealth-State housing agreement. This functional separation of the wartime and post-war parts of the scheme, dictated as it was by constitutional considerations, led to early confusion and failure by some of the States (partly because of Commonwealth reticence) to appreciate the link between the wartime and post-war phases. With its command of manpower and material resources, the Commonwealth Government accepted primary responsibility for the wartime phase, although it chose sensibly to work through State agencies. But after the war Commonwealth power would be limited, and housing was a cherished preserve of the States. The Government hoped to be able to exert as much influence as possible through the imposition of conditions on financial assistance, but accepted that the initiative lay with the States. Despite this administrative complexity, however, the wartime and post-war phases were conceived as a unity.

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[6] "Dwelling unit" was not clearly defined by the commission but appears to have included separate houses normally occupied by one family, and flats; the treatment of hostels, boarding houses and hotels is unclear.

[7] Because of the uncertain scale of post-war immigration, these estimates excluded any allowance for immigration.

[8] Full Cabinet meeting, 14 Mar 1944, on Agendum 565B.

[9] Full Cabinet meeting, 20 Oct 1943, on Agendum 553.

[1] Full Cabinet meeting, 7 Dec 1943, on Agendum 565.

Initiation of the wartime phase at the end of 1943, the Commonwealth's first venture into home building outside its special responsibilities for defence and repatriation, involved an elaboration of the bureaucratic structure. For the time being administration remained with the Department of Labour and National Service to which was added a War Housing Division. A Cabinet sub-committee[2] was appointed to determine policy details with the aid of a newly established inter-departmental committee. The Commonwealth War Workers Housing Trust was reconstituted as the Commonwealth War Housing Trust to enable the trust to broaden its range of activities. The Production Executive considered the recommendations of the Cabinet sub-committee, and provided manpower allocations for housing within the context of the manpower budget. But these changes did not ensure the release of men and materials from construction for war purposes, priorities for which were controlled by the Works Priorities Sub-Committee and the Defence Committee. Arrangements were made to submit building proposals to these authorities via the Department of War Organisation of Industry, but experience had shown that there would be little change in priorities without detailed Cabinet intervention. From the outset, therefore, the wartime programme was handicapped by administrative unwieldiness and the absence of a clear structure of priorities for war and non-war housing.

For these reasons, and because of inadequate communication and co-operation between the Commonwealth and the States, the programme lagged badly. Targets were adjusted quarterly but for 1944 as a whole 4,465 government-sponsored houses were planned to be completed or under construction. In addition, War Organisation of Industry issued 3,296 permits for the building of private homes, making a total approved programme of 7,761 houses. By the end of January 1945 805 houses had been completed and 2,970 were under construction, or 50 per cent of the approved programme; but of the government-sponsored target only 39 per cent was achieved.[3] For 1945 the target was raised to 14,800 houses of which one-half were to be government-sponsored, although the Production Executive was under no illusions that the figure drew more from faith than reality. The problems facing the building industry were easily identified and had been under notice for many months. The importance attached to civilian housing by the Full Cabinet and the Production Executive was inconsistent with the Defence Committee's priority rating for home construction, meaning that insufficient labour and materials were being released from direct war construction. In addition, the Government had not given sufficient notice of its plans to State housing authorities, and for their part the States did not accept the same degree of urgency as the Commonwealth. On 4th June 1945 the Full Cabinet approved an upgrading of housing's priority rating so that it would be second only to the "most urgent Service projects", and the Prime Minister

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[2] Comprising Ministers for Post-War Reconstruction, Labour and National Service, War Organisation of Industry, Repatriation and War Service Homes, and the Attorney-General.

[3] Production Executive Agendum 122/1943 and Supplements.

made clear to the States the magnitude of the planned programme and urged that development work be undertaken without delay.[4] In July the Department of Works assumed the housing functions which had been split between Labour and National Service, Post-War Reconstruction, the Prices Branch and the War Service Homes Commission, and was restyled the Department of Works and Housing. But these changes came far too late to have any influence on the war housing programme, and in 1945 the back-log was judged to be at least as great as in 1943. Nevertheless, a start had been made. In terms of the number of dwellings completed, building activity had been increased from the wartime nadir in 1943 of 7½ per cent of the 1939 figure to 27½ per cent in 1945.

For the post-war housing programme the Government had three main objectives. First and most obviously, the attainment of as high a rate of construction as possible. Second, the direction of available capital funds to the building of rented accommodation for low-income families by means of government-sponsored construction, and the supply of this accommodation to these families at a rent which they could afford. Third, retention by the Commonwealth of overall direction of the government-sponsored programme. In addition there was a long list of subsidiary objectives, including the setting of a uniform national housing standard, the clearance of slums, the development of integrated town planning, the control of land prices, urban decentralisation, and the upgrading of the technology of the building industry. But these were of lesser consequence than the desire to see the basic wage-earner well housed and placed in a financial position which would enable him to own his own home eventually.

The Commonwealth had no intention, however, of seeking direct control. Housing was not included in the reconstruction referendum, and financial incentive was chosen as the method of inducing the States to adhere to national policy. Initially the Government sought to deal directly with housing and other regional authorities, but the States objected and the idea was abandoned. The draft housing agreement approved by the Full Cabinet in December 1943,[5] and submitted to the Premiers the following month,[6] clearly designated State governments as principals.

The substance of the draft agreement was that the Commonwealth would raise loan funds and advance money to the States at cost (that is the long-term bond rate). The loans were to be repaid over the amortisation period of the asset. Housing was to be of two types—rented accommodation and homes to be made available for purchase. The Government considered the rental housing component the most important part of the scheme, and much of the subsequent discussion centred on the method of offering rent subsidies. The proposal was that low-income tenants be offered a rental rebate equal to the difference between the "economic rent"

[4] Full Cabinet Agendum 553C

[5] Full Cabinet Agendum 565; meeting 7 Dec 1943.

[6] *Proceedings of the Conference of Commonwealth and State Ministers,* Canberra, 25 to 27 Jan 1944.

and one-fifth of family income equal to the basic wage. In other words, the amount of the rebate would be adjusted according to a sliding scale, and would disappear when one-fifth of family income was able to cover "economic rent".[7] The home purchase component was less specific. It allowed State housing authorities to build an agreed number of houses for sale. Minimum deposits were to be determined by State law, and otherwise be in accord with capacity to pay. The rate of interest to be charged was to be limited to one per cent above the rate charged by the Commonwealth to the States. An important condition was that houses could only be resold to the housing authority. Losses incurred as a result of rent rebates were to be shared three-fifths by the Commonwealth and two-fifths by the States.

While the States were to act as principals, the Commonwealth sought detailed administrative control over the scheme: most matters of substance were to be made subject to agreement by Commonwealth and State officials. The first condition was that the States should have "adequate legislation" to cover slum clearance and town planning as well as the rental and home purchase parts of the scheme. Second, minimum and maximum housing standards were to be agreed by the Commonwealth and States, a subject which became a matter of sustained controversy. Third, the details of new housing developments such as site and subdivision plans, the types of dwellings, estimates of cost, and estimates of "economic rent", were to be made the subject of agreement between officials of the various governments. Finally, the Commonwealth determined the scale of new construction through its control over the volume of loan raising, and sought influence over the distribution of building between and within States.

These conditions and the system of rental rebates were bound to produce a sharp reaction from the States. Whether such stipulations were justified or not raises time-honoured questions about the nature of Australian federalism, notably the extent of Commonwealth responsibility for the development of *national* economic and social standards. This is not the place to consider these issues. But the Labour Government's view was that the Commonwealth had a clear obligation to become involved directly in the improvement of housing conditions because the war had played a large part in aggravating the problem, and also because housing was such an important element in living standards. Thus housing, with employment and social services, was placed in a special category for which there had to be a national approach and a narrowing of differences between and within States.

There is little value in a detailed record of the two years of negotiations which produced the Commonwealth-State Housing Agreement of November 1945. But an outline of the main issues is necessary to explain the modifications made to the Government's original draft.

[7] "Economic rent" was not defined at this stage, but was intended to mean the full cost of supplying the accommodation. It did not mean the current market price. Family income was defined as the whole of the breadwinner's income, two-thirds of the wife's income, and one-third of each child's income up to a maximum of 30s. per week (the income of children up to 10s. per week to be disregarded).

As expressed forcefully by the Premier of South Australia, T. Playford,[8] the predictable opening gambit of the majority of States was to accept the Commonwealth's financial assistance but not its supervision. As a modification of the Government's scheme, the States argued for loans with the rate of interest reduced below the long-term bond rate of 3½ per cent which would have enabled them to obtain cheap money which they could use for housing in their own ways. The proposal had a certain attraction in that it avoided the irksome business of applying the means test to low-income families, but it was plainly unacceptable to Curtin and Chifley: a few States had a commendable record in providing housing for those in need but most did not. The rental rebate provisions were among the few original provisions of the scheme to survive the Premiers' onslaught.

Most other aspects of the Housing Commission's conception of a national housing policy were sacrificed on the altar of State rights. The Premiers rejected the Commonwealth's attempt to supervise in detail the geographical distribution of new home building under the scheme. The most the States would concede was to consult the Commonwealth on the broad distribution between urban and rural building. The Government's hope for supervision of such details as site plans, design and costs was also abandoned.

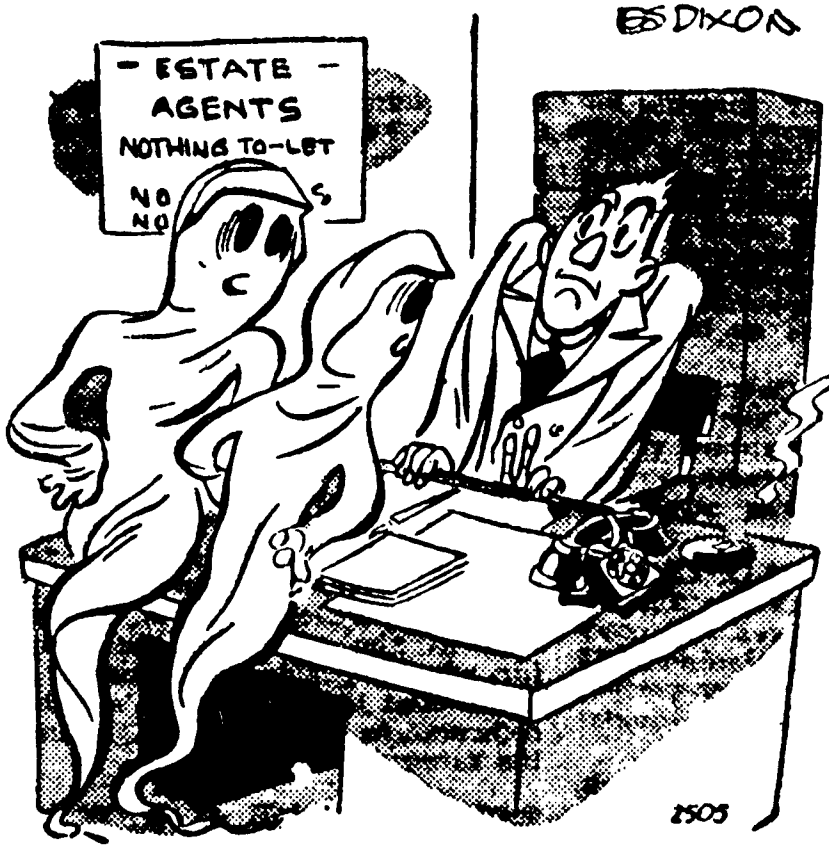
The draft agreement of January 1944 laid down that construction should conform to minimum and maximum standards. The minimum was to be as set down by the individual States, and there was no argument about this provision. But there was no obvious solution to the definition of a maximum standard. The Government insisted that the total cost of any dwelling should not exceed a certain amount, so as to avoid extravagance, a principle which was accepted with reluctance by the States. Because of wide differences in costs between States, and between metropolitan and rural areas, and because of uncertainty about the trend in post-war prices, upper cost limits could not be specified. The most that could be done was to agree to a periodic revision of maximum costs.

The Commonwealth itself contributed to dilution of the original scheme. Shortly before the Premiers' Conference of August 1945 where final details were settled, the Prime Minister announced the Government's intention to abandon the home-purchase provisions. This meant simply that the Commonwealth would not share in any loss arising from State activity in the construction of new houses for sale to low-income families. The reasons, as stated, were that the States were unlikely to suffer losses of any significance, and that facilities provided by the States for home-purchase were already adequate.[9] An additional reason, not openly expressed, was the obstruction of the States.

The upshot was that the Commonwealth and State Housing Agreement rested solely on rental subsidy to be offered to low-income families. This was of importance for increasing the availability of housing for those in

[8] Hon Sir Thomas Playford, GCMG. MHA SA 1933-68; Premier, Treasurer and Minister for Immigration 1938-65. B. Norton's Summit, SA, 5 Jul 1896.

[9] *Proceedings of the Conference of Commonwealth and State Ministers,* Canberra, 20 to 23 Aug 1945.



"Haven't you got ONE empty house? We haven't had a decent haunt for five years!"

Dixon in Smith's Weekly *(Sydney) 6 Oct 1945.*

greatest need. Under the agreement advances were made by the Commonwealth to the States for the construction of low-cost rental accommodation, and an opportunity was offered to tenants to purchase the houses they had been renting.[1] But the agreement fell far short of the national housing policy envisaged in 1944, although it was a modest step towards overcoming the total housing shortage. Indeed, the concept of a national approach to the housing problem had collapsed: the net result of the two years of negotiations was that the major initiative reverted to the States and private enterprise. This was reinforced by the failure of governments to reach agreement on the post-war control of building materials.[2] At the Premiers' Conference in August 1945 the States objected to continued central control of building materials and the Commonwealth forthwith abandoned most of its wartime restrictions and its priorities system.

This is not the occasion to pursue the history of the building programme after the war: the persistence of an acute housing shortage for many years is well known, hardly surprising in view of the low level of construction in the 'thirties and 'forties, the resurgence in the marriage rate and fertility, and the adoption of an ambitious immigration programme. Nevertheless, the restoration of the industry was initially more rapid than this general view might suggest. In 1945 the Government planned for the commencement of 24,000 houses in 1945-46, and this target was slightly exceeded. For 1946-47 the commencement rate was set at 42,000 houses and 47,243 were in fact started. The target for 1947-48 was 50,000 compared with actual commencement of 53,194. To be sure, houses took much longer to complete in these early post-war years than before the war, but by 1948 the pre-war level of activity had been restored. This may not have been nearly enough, but in view of the dislocation of the industry during the war, the chronic shortage of materials, and the opposition to reconstruction training by building trades unions, the rate of restoration was a considerable achievement. But the public housing programme fell well below expectations. The hope had been that the government-sponsored scheme would account for one-half of all houses built, but between April 1944 and June 1948 Housing Agreement homes only represented 17 per cent of total completions. The general explanation appears to have been that the States did not have the determination, the funds or sufficient control of materials to compete against the overwhelming demand of the private sector. In particular the early abandonment of comprehensive building materials control and the substantial relaxation of capital issues control were the undoing of the public housing programme and the ambition to redistribute housing in favour of those most in need.

Constitutional limitations and the zealous protection of State rights were plainly an important part of the explanation of the collapse of the national approach to post-war housing. But this is not the whole story. The idealism

[1] The agreement was ultimately signed by all States, but South Australia did not operate under its provisions. While the agreement was not completed until Nov 1945, its terms were applied as from Apr 1944.

[2] The matter is discussed in more detail in Ch. 25.

expressed by the Housing Commission and official statements notwithstanding, housing was not at the top of the Government's list of priorities. By the end of the war heavy additional financial commitments had been accepted for repatriation, reconstruction training, national works, and war service land settlement. There existed an unbreakable political obligation to increase the range and scale of social services; for equally compelling reasons direct taxation had to be reduced. The future of uniform taxation was still uncertain. In this context a large-scale assault on the housing problem appeared beyond the Commonwealth's capacity. Therefore, as the States insisted that housing was their responsibility, Curtin and Chifley were not unwilling to agree.

TRAINING AND EDUCATION

In preparation for the considerable human and economic problems associated with conversion to a peacetime society, the Commonwealth extended its involvement in education. In April 1943 the War Cabinet appointed a Commonwealth Reconstruction Training Committee[3] to advise on the professional and vocational training needs of discharged members of the armed forces in three broad categories: university-type education;[4] other types of training, mainly technical and rural; and problem cases to be handled through the Repatriation Commission. The general purpose of the proposed scheme was to provide training and retraining opportunities for those members of the forces whose education had been interrupted by enlistment, and for those who for a variety of reasons would benefit from partial or complete retraining. The scheme aimed to provide not only personal rehabilitation but also a broadly-based upgrading of the community's educational attainment and an increase in the supply of skilled labour for post-war economic expansion (particularly in the building industry and allied trades). Wartime experience had demonstrated that technical training facilities had not kept pace with pre-war industrial growth, and during 1943 and 1944 the Department of Post-War Reconstruction emphasised repeatedly the urgent need for an upgrading and expansion of these facilities.

Implementation of the scheme proved to be more complex than was at first envisaged. One ever present complication was the constitutional limitation which prevented direct Commonwealth involvement in education. A few planners urged in 1943 that the Government should make a bid for power over education in the forthcoming referendum, but the suggestion received little active support.[5] It was necessary, therefore, to work on the basis of Commonwealth-State co-operation through the formation of Regional Reconstruction Training Committees, the Commonwealth's responsibility being limited, basically, to the provision of financial assistance. The Government was therefore dependent on State

[3] War Cabinet Minute 2755, 14 Apr.

[4] In addition to standard degree courses, "university-type" training included nursing, teacher training and certain theological courses.

[5] Of course, the 1944 referendum sought power for "the reinstatement and advancement" of ex-servicemen.

and private organisations to provide most of the necessary facilities. For the most part there was no difficulty with this arrangement, and for the purposes of reconstruction training the State organisations became departments of the Commonwealth. Further, the facilities used by the Departments of Munitions and Aircraft Production in the Commonwealth Technical Training Scheme were made available, and in other ways the Commonwealth added directly to the supply of a wide range of educational buildings and equipment. But the Government was always conscious that its commitment was for a limited period and purpose, and this restricted the scope of post-war planning of education.

Of more immediate practical concern was the vexed question of "eligibility" and "suitability" for the scheme. In 1943 the proposal possessed an innocent simplicity: ex-service men and women, and a few others such as members of the Red Cross closely associated with the fighting forces, whose studies had not commenced on enlistment or had been interrupted by the war, would be assisted to complete their training. But simplicity vanished when the details were being drafted. First, the Reconstruction Training Committee was understandably reluctant to draw too finely the terms and conditions of "eligibility" until the demand for reconstruction training could be estimated with some degree of confidence, and while the war continued and releases from the Services were minimal there was no practical way of improving the figures. Second, the work of the Regional Committees in organising the technical schools and in-service training arrangements was handicapped by the absence of reasonably authoritative estimates of likely demand. Gradually "Canberra figures" emerged towards the end of the war and these were generally accepted as the basis for the creation of facilities, but for reasons that will be discussed shortly these figures were little more than of academic interest.

Nevertheless, the scheme commenced in a small way at the beginning of 1944 with practice well ahead of policy. An early start was necessary to provide opportunities for the rising number of demobilised men and women expected in 1944, and to shift some of the burden away from the post-demobilisation bulge in trainee applications. A prompt start also enabled continuous use to be made of the training facilities of the Commonwealth Technical Training Scheme. By the end of the war the skill rating of 119,612 workers had been upgraded by a large number of courses ranging from eight to twenty-four weeks, most of them for the purposes of munitions and aircraft production; but with the rundown in the munitions programme from 1944, training annexes, equipment and some instructors were available for transfer to reconstruction training. The continuity which this provided,[6] and the knowledge gained in wartime administration by the Universities Commission and the Army Education Service, established a solid foundation for the much larger and more complex task of reconstruction training.

[6] A further important element of continuity was the appointment of the Director of Technical Training, E. P. Eltham, as the Director of the Industrial Training Division of the Department of Labour and National Service and as a member of the central Reconstruction Training Committee.

By the end of 1944 most of the basic principles had emerged and these were incorported in the *Re-establishment and Employment Act*.[7] Although a great deal of effort was devoted by the planners to the definition of "eligibility" and "suitability", the rules were eventually cast in such a way that very few ex-servicemen with a serious interest in obtaining professional and technical qualifications were excluded. Age and length of service were the most important constraints. Formally the scheme was restricted to those who had enlisted before their twenty-first birthday and who had served for at least six months before honourable discharge, but even these conditions were applied flexibly. The other requirements—there were thirteen in all for university-type training—were designed to allow the selection authorities the maximum amount of discretion. If, for example, an applicant was able to show that his training had been interrupted by the war, he could be selected by demonstrating the requisite ability which meant, in the case of universities, matriculation. Qualification for technical-type training was necessarily even less specific, and depended on an overall assessment of Service history, educational attainment and occupational history. The scheme was extended to Australian merchant seamen, canteen personnel on H.M.A. ships, and members of the Women's Land Army incapacitated by war service and unable to return to pre-war occupations.[8] Those who were already qualified and merely wished to change or improve their qualifications were formally excluded, but many of these were able to gain selection by arguing that the war had adversely affected their prospects for employment under conditions similar to those that existed at the time of enlistment.

The financial assistance granted to trainees was generous and was designed to encourage maximum participation in the scheme. Living allowances paid to full-time trainees ranged from £3 5s. per week for a single man to £5 5s. per week for a married man with two or more dependent children. The higher figure was therefore in excess of the average (six capital cities) basic wage in mid-1946 of £4 17s. and only thirteen per cent below average male weekly earnings. Female allowances were, comparatively, more generous, for women living away from their parents were paid the same as men including the allowance for dependants. Part-time allowances varied depending on the length of training required, but £60 per trainee was the maximum allowable. Full-time technical-type trainees were supported until they reached what was judged to be a forty per cent proficiency level (usually from three to twelve months after commencement), after which they were placed in employment for further on-the-job training at full award rates. The Government reimbursed the employer for the amount of wages paid in excess of estimated proficiency until 100 per cent proficiency had been attained.

A heavy demand for training was therefore ensured, but it was much more difficult to provide buildings, equipment and staff in sufficient quantities to cover the full range of courses envisaged. As noted, the use

[7] No. 11 of 1945.

[8] Widows of members of the forces were also eligible provided that they had not remarried.

of munitions technical training annexes helped to overcome the accommodation shortage for certain types of training in some areas, but there were limits to the usefulness of this type of structure and equipment. Re-erection of Army buildings also helped in a limited way. But what was found necessary and finally accepted by the Commonwealth was direct financial assistance to universities and technical colleges for a swift upgrading of their capital and staffing resources. This step was taken, however, with some hesitation because of the possible long-term policy implications, and this was manifest in the formulae devised to provide for additional university buildings. Through the Universities Commission—the administering authority for university-type training—the Government accepted the financial obligation for the additional buildings required to house reconstruction trainees, but temporary buildings were to remain the property of the Commonwealth and permanent buildings were financed subject to reimbursement of depreciated value on termination of the scheme. Additional plant and equipment were financed under similar conditions. However, full additional teaching costs were met by the Government, and estimated administrative costs also attracted subsidies. In special circumstances more extensive assistance was granted as in the case of finance for the development of Higher Technical Training Colleges at Geelong, Melbourne and Sydney.[9]

Despite severe shortages of accommodation, equipment and staff, the post-war programme of university-type training commenced with less disruption than might have been expected. The number of students enrolled in degree and diploma courses more than doubled from 10,940 to 22,738 between 1944 and 1946, two-thirds of the increase being accounted for by reconstruction trainees. Clearly the scheme, together with the continuation of financial aid to students, opened the possibility of university education to a completely new group of people and in so doing helped to revolutionise the post-war character of Australian universities. The comparatively easy transition was due largely to the work of the Universities Commission.[1] Under the guidance of its chairman, Professor R. C. Mills, the commission had established a sound working relationship with the universities through the administration since 1943 of financial aid to students. In a series of meetings on reconstruction between Mills and the Vice-Chancellors during 1943 and 1944, the commission had been able to establish the needs of the universities and encourage constructive thought about how, with limited resources, the universities could deal with a rapid growth in numbers. Mills' main task at this stage was educational: to allay fears about post-war prospects and to convince his fellow academics that a complete change in the order of magnitude was possible and desirable. One solution favoured by a few Vice-Chancellors, the imposition of quotas, was soon dismissed as offering no solution. Quotas were politically unacceptable to the Commonwealth, and probably against the long-term

[9] Full Cabinet Agendum 825 and 825A, 16 Mar and 17 Jul 1945. This decision was part of a broad strategy for the post-war development of wool-growing and the woollen textiles industry.

[1] The wartime Universities Commission had no connection with the Australian Universities Commission established by the Menzies Government in 1959.

interests of the universities themselves. In the end universities were persuaded to reduce slightly their entrance requirements for trainees, but the concessions that were granted were not intended to pave the way for easy qualifications. They were designed to avoid the need to re-examine those who had demonstrated the requisite ability. In general university standards

UNIVERSITY-TYPE RECONSTRUCTION TRAINEES

	1945	1946	1947	1948	1949
Reconstruction Trainees:					
Degree courses	982	6,789	9,677	10,182	8,300
Other	139	1,730	1,504	1,367	1,051
Total	1,121	8,519	11,181	11,549	9,351
Total University students:					
Degree courses	11,953	19,969	23,548	25,857	25,230
Diploma courses	1,472	2,769	3,135	3,267	3,155
Total	13,425	22,738	26,683	29,124	28,385
Commonwealth Reconstruction Training Scheme/Total students (%)	8.4	37.5	41.9	39.7	32.9

Source: *Commonwealth Year Books.*

were fairly well maintained and there was little of the "give-away" of qualifications which was such an unfortunate feature of the scheme which had followed the war of 1914-18. On the whole universities probably benefited from reconstruction training expenditure despite the squeeze. In 1945 they were near the bottom of State governments' order of priorities for capital works expenditure: Commonwealth involvement at least enabled the supply of facilities to keep pace more or less with the demand; and in the longer term the initial participation of the Commonwealth Government brought more substantial benefits.

Technical-type training institutions and trainees were not as fortunate, and the vocational part of the scheme fell well short of expectations in the early post-war years. Shortage of finance, buildings and equipment was only one and not the most important of the constraints. More fundamental was the pre-war underdevelopment of technical colleges and the preference for *ad hoc* on-the-job instruction, an inheritance which left a maze of training institutions and authorities with widely differing standards and facilities. Further, the administration of this part of the scheme left much to be desired with the separation of decision-making from the policy division which resulted in confusion and uncertainty. Finally, trade unions were deeply suspicious of a scheme designed to increase rapidly the supply of skilled labour. The unions' opposition coupled with the Commonwealth Government's tenderness towards them meant that even the limited capacity that was available remained heavily underutilised in the early years.

Responsibility for technical-type and rural training was divided between the Department of Post-War Reconstruction and the Department of Labour and National Service. The former determined the number of trainees in the various categories in relation to the planned expansion of housing and secondary industries. A decision was taken at the outset to decentralise administration, so that Regional Committees were established in each State and these committees in turn created a large number of professional, industrial and rural sub-committees made up of employer and employee representatives of particular trades and a member of the Regional Committee. Selection and allocation of trainees was the responsibility of this committee structure which thereby exercised control over demand. But the task of liaison with the technical schools and agricultural colleges about training capacity, the need for new buildings and equipment, and the tool kits which were to be supplied to trainees, fell to the Division of Industrial Training of the Department of Labour and National Service. Communication between the two authorities was less than adequate, and the Division of Industrial Training complained repeatedly that the information it received from the Commonwealth Reconstruction Training Committee was likely to be either inadequate or amended at short notice. An integrated organisation dealing with both demand and supply would have alleviated much of the delay and uncertainty.

Such administrative shortcomings were only a small part of a much wider problem of implementation, manifest in the long delay between discharge and commencement of training. Before demobilisation most servicemen were assisted in the transition to civilian life by a programme of general education conducted by the Army Education Service. At this stage some information about reconstruction training was made available, although lack of sufficiently detailed information was a common complaint. The first delay occurred after the submission of applications for training. Sub-committees and regional committees hesitated to approve many applications in the absence of authoritative target figures from Canberra, and a great deal of confusion was generated by the large number of conflicting estimates that were compiled—particularly for the host of small part-time courses. But the longest and most serious delay occurred between acceptance and commencement. Delays of six months were usual and twelve months' delay was common. The contrast between university-type and technical-type training is clearly illustrated in the table, which shows that by July 1946 82 per cent of selected full-time university-type trainees were receiving instruction but the comparable figure for technical trainees was only 47 per cent (including those placed without prior training). For part-time trainees the contrast is even sharper. Some delay was of course to be expected: no training authority however well programmed could have handled the flood of applications received at the beginning of 1946. But the main reason for the delay was the refusal of trade unions to accept the target figures proposed by the Commonwealth Reconstruction Training Committee.

STAGE REACHED OF COMMONWEALTH RECONSTRUCTION TRAINEES AS AT 26 JULY 1946

Stage	University-type		Technical-type	
	Full-time	Part-time	Full-time	Part-time
Applications	16,422	8,425	62,527	105,009
Rejected	632	91	3,535	1,610
Selected	11,554	6,434	40,771	83,181
Commenced	9,444	5,175	16,081	25,856
Placed (without prior training)	n/a	n/a	1,977	n/a
Withdrawn (after commencement)	602	333	758	861
Completed	322	186	2,386	319
In training	8,510	4,656	12,937	24,676
Placed after training	n/a	n/a	2,082	n/a

Note: n/a = not available.

Source: Report of Committee of Review on the Commonwealth Reconstruction Training Scheme, to Director, Re-establishment Division, Department of Post-War Reconstruction, 7 Nov 1946.

Unions in the building industry provided the main opposition. At the end of the war it was estimated that eighty per cent of the additional vocationally-trained labour required for post-war economic expansion was needed by the building and furniture trades, and as a matter of policy trainees were encouraged to take up these trades. Indeed, among the most popular courses were carpentry and joinery, cabinet making, painting, plumbing, bricklaying and plastering, although there was some resistance to the last three trades because of the heavier nature of the work.[2] A large proportion of the total training target was therefore allocated to these courses, and the central committee provided capacity for the training of 32,850 ex-servicemen by the end of June 1947. In view of the shortage of building materials and tools, the trade unions considered this a highly inflated figure which would lead to an oversupply of tradesmen. Much of the delay in beginning training was due to pressure exerted by employee representatives on industrial sub-committees. In May 1946 unions were successful in persuading the Government to cut its planning target in half despite the fact that requirements as originally estimated were regarded as conservative. Even then union pressure continued: training capacity was not fully utilised, the number in actual training fell well below the reduced target of May 1946, and as the supply of materials to the industry improved a severe shortage of labour developed. At the end of 1946, E. P. Eltham, Director of Industrial Training, summarised the position as follows:

Number agreed to be trained for twelve months ended 30 June 1947	16,425
Completed basic training and placed in employment	4,476
Number in training (and awaiting placement)	5,689
Training capacity (including accommodation nearing completion)	8,339

[2] Other popular courses were applied art, commerce, wool classing, boot repairing, hairdressing and dressmaking. By Nov 1946 there were 200 full-time and 330 part-time technical-type courses available.

TECHNICAL-TYPE RECONSTRUCTION TRAINEES, 1945-48

As at	Number in training		Number completed training (cumulative totals)	
	Full-time	Part-time	Full-time	Part-time
22 June 1945	1,338	5,988	202	86
20 November 1945	2,643	11,545	685	209
30 November 1946	19,038	72,180	8,725	1,569
20 November 1947	22,248	120,919	27,804	7,086
30 November 1948	16,569	138,745	41,836	17,172

Note: Includes those not taking correspondence courses but excludes rural trainees.

Source: Unpublished Reports of Industrial Training Division, Department of Labour and National Service.

An assessment of reconstruction training lies beyond the scope of this volume, but it is clear that the contribution of technical-type training was much less than was judged to be desirable in 1944 and 1945. Part-time courses were particularly unproductive (as indicated in the table) with a high incidence of non-completion in the minimum time. Indeed, most failed to finish their training and in the circumstances this was not altogether surprising. More serious from the point of view of the supply of skilled labour was the short-fall in the full-time training target. It was predicted in 1945 that at least 80,000 to 90,000 additional skilled tradesmen would be required from the training scheme, but by the end of 1949 only about sixty per cent of the minimum target had been achieved.

While reconstruction training was the largest and most conspicuous Commonwealth contribution to education at the end of the war and in the early post-war years, the foundations were laid at the same time for what proved to be a more enduring Federal involvement in the field. By 1945 there was near unanimity that more resources should be devoted to education and research in the post-war world, a reaction to the extreme shortage of highly skilled manpower that had been so acute in 1942 and 1943. Again, however, the Commonwealth was reluctant to establish a commitment within the ambit of the States' responsibility, and the issue emerged in terms of administrative necessity rather than of general principles.

Of immediate concern at the end of 1944 was the future of the Universities Commission. Established in 1942 under the *National Security Act* to administer a scheme of financial assistance to a limited number of university students and to advise on manpower reservation in the universities, continuation of the commission after the war was necessary to provide the machinery for the administration of university-type reconstruction training. Legislation to constitute the commission as a peacetime body was a routine matter, but consideration of the commission's future raised the general question of Commonwealth assistance in the field of

education outside reconstruction training and in particular the future of direct Federal assistance to university students. It will be recalled that financial assistance was introduced to ensure as far as possible that reserved students were able to complete their studies.[3] Although it originated as an aspect of manpower policy, the financial assistance scheme coincided with the Labor Party's approach to social policy and, as Dedman emphasised in his first submission to the Full Cabinet on the subject in November 1944, "no Labour Government would wish to see the scheme lapse and allow the position to revert to the pre-war state of affairs, where family income largely determined who should receive university education".[4] The Cabinet accepted the principle involved, but in doing so initiated a more comprehensive review (by means of an inter-departmental committee of the appropriate nature and form) of extended Commonwealth educational responsibility.

In a series of reports spanning 1945 and 1946, the committee stopped well short of advocating a national approach to education policy and instead submitted a number of *ad hoc* recommendations most of which were designed to limit the Commonwealth's long-term financial commitment. First, the Universities Commission would be continued for the currency of the reconstruction training scheme, but the commission's functions were to be largely administrative and not concerned with policy questions.[5] Second, financial aid to university students would be continued, but only for five years after the war. The Commonwealth envisaged this as an interim measure pending agreement between the Federal and State governments on the longer term implications of financial assistance.[6] Third, to provide a permanent nucleus of Commonwealth authority, the *Education Act* of 1945 provided for the establishment of the Commonwealth Office of Education to perform an advisory function and to establish links with state and overseas governments, and such international bodies as United Nations Educational, Scientific and Cultural Organisation (UNESCO). Fourth, research work was to be assisted in two ways. A modest increase in research grants was approved, rising progressively from £40,000 in 1944-45 to £127,000 in 1948-49. Allocation was to be supervised by the Commonwealth Research Grants Committee within the Commonwealth Office of Education. Ultimately more important, the Government at the end of 1945 approved the formation of an Australian National University in Canberra primarily for the purpose of research and post-graduate training.[7]

[3] After 1942 the original scheme of financial assistance was modified in two minor ways. First, the scope of the scheme was extended to include engineering, architecture and science courses in those few technical colleges which were judged to offer diplomas approximately equivalent in standard to university degrees. In each case extension followed a review by the Manpower Directorate of the market for those qualified in these ways. Second, the means test was liberalised slightly in early 1945.

[4] Full Cabinet Agendum 757, 24 Nov 1944.

[5] The commission was in fact wound up in 1950 with the completion of the reconstruction training scheme.

[6] The number of students to be assisted in 1946 was set at 729, a figure obtained by averaging the number of first year students assisted in the three years 1943-45. Financial assistance was continued by the Menzies Government in 1951 by means of the Commonwealth Scholarship Scheme.

[7] The *Australian National University Act* was passed in 1946.

As in the case of housing and rural reconstruction, this circumscribed approach reflected the limitations imposed by the Constitution and the uncertain future of Federal finances. Despite the many genuine expressions of high principle about the need for a nationally co-ordinated policy with greater Commonwealth involvement,[8] education beyond the immediate tasks of reconstruction training remained low on the list of priorities. While the war initiated important changes in policy and considerably enlarged the Commonwealth's involvement in education, the change in approach to long-term needs was much less marked.

SOLDIER SETTLEMENT AND RURAL INDUSTRIES

In the first half of 1942 the outlook for many rural industries appeared bleak. Producers were still suffering from the disastrous slump in prices of the 'thirties. Markets had been lost because of the outbreak of war and the severe shortage of shipping. Essential materials such as fertilisers were in short supply, and the more labour intensive industries were already feeling the effects of the exodus of labour from the land. Forecasts were that primary products would be faced with the same sort of price instability as in the interwar years.

These were the underlying reasons for the Treasurer's recommendation to Full Cabinet in May 1942 for the appointment of a Rural Reconstruction Commission to investigate post-war problems of primary industries. But there was an important additional reason. As after the war of 1914-18, there was expected to be strong political pressure for the settlement of ex-servicemen on the land. The experience of soldier settlement between the wars had been disastrous, and the Government was determined to benefit from the mistakes of the past. One obvious lesson was that a soldier settlement policy had to be prepared well in advance, so the commission was to give high priority to the development of such a policy.

Full Cabinet approved the appointment of a Rural Reconstruction Commission,[9] but the commission was not formally constituted until 25th February 1943. Like the Housing Commission it was established as a board of inquiry with terms of reference so broad as to enable it to investigate all aspects of the wartime rural economy and post-war rehabilitation of primary industries. In practice its investigations were restricted to post-war reconstruction. The commission was appointed under the chairmanship of F. J. S. Wise,[1] Minister for Lands and Agriculture in Western Australia, while the most influential member was S. M. Wadham,[2] Professor of Agriculture at the University of Melbourne.[3]

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[8] For example, *Commonwealth Debates*, Vol. 184, pp. 4249 ff.

[9] Full Cabinet Decision 22 May 1942.

[1] Hon F. J. S. Wise. Agric Dept WA 1929-33; MLA WA 1933-51. Min Lands and Agric 1939-45; Prem and Treas 1945-47; Chmn C'wealth Rural Reconstn Comm; Admin North Terr 1951-56; MLC WA 1956-71; Min Ind Develpt Loc Govt and Town Plg 1958-59. B. Ipswich, Qld, 30 May 1897.

[2] Sir Samuel Wadham. (RE Sigs 1914-19.) Prof of Agric Univ Melb 1926-56; Royal Comm on Wheat Industry 1934-36; C'wealth Nutrition Ctee 1937; C'wealth Rural Reconstn Comm 1943-46. B. Ealing, UK, 31 Oct 1891.

[3] Other members were J. F. Murphy and C. R. Lambert; secretary R. W. Brownie, executive officer P. R. Judd.

From the outset the commission took a broad view of its responsibilities. "Rural reconstruction" was taken to mean not merely the problems of transition during the first few post-war years, but also the long-term development of the rural economy and living conditions in rural areas. The commission's detailed and lengthy collection of evidence in all States in the style of a royal commission was designed to present a package of wide ranging policies for the improvement of farming efficiency, intensification of land settlement, stabilisation of farm incomes, and improvement in the standard of living and conditions of work in rural areas. The underlying objective was to make possible an increase in total population without lowering national living standards. The emphasis on long-term development had its advantages: the immediate tasks of reconstruction could not be separated easily from long-run policy goals, particularly in a sector of the economy where change was unlikely to be rapid. At the same time the commission did not give sufficient attention to immediate tasks. Many of its recommendations had an academic flavour and passed over the problem of divided responsibility between the Commonwealth and States, thus enabling governments to avoid specific decisions. In the main, the outcome of four years' work and the preparation of ten reports,[4] of which the final ones were completed in 1946, was that development of a long-term rural policy was diverted to the Never Never land of departmental consideration and Commonwealth-State collaboration.

These remarks do not apply to the preparation of a land settlement policy for returned servicemen. The report on this subject was completed quickly and emphasised concrete policy considerations. Guiding principles were determined after an analysis of the reasons for the failure of the 1914-18 war scheme. These were, briefly, that expectations about the continuation of high wartime prices had been exaggerated which had led to an over-optimistic view of the prospects for further land settlement; large tracts of Crown and other land had been sub-divided without adequate consideration of its productive value or suitability for closer settlement; selection of men had been haphazard and there had been insufficient pre-discharge training; and, most critical of all, land had been transferred at inflated prices, resulting in overcapitalisation of soldier settlement farms and the imposition of a crushing burden of indebtedness under conditions of falling commodity prices in the 'twenties. A further weakness had been the unsatisfactory division of responsibility between the Commonwealth and the States. In the words of the commission:

> The outstanding point in connection with the Commonwealth-State relations was that, although all States sought to make the Commonwealth a party to all losses, the Commonwealth had no voice in, and no means of protecting itself under, schemes which were devised by the States and which the States jealously guarded as being their sole prerogative.[5]

[4] The reports with dates of presentation were: 1—"A General Rural Survey", 17 Jan 1944; 2—"Settlement and Employment of Returned Men on the Land", 18 Jan 1944; 3—"Land Utilisation and Farm Settlement", 30 Jun 1944; 4—"Financial and Economic Reconstruction of Farms", 28 Aug 1944; 5—"Rural Credit", 28 Feb 1945; 6—"Farming Efficiency and Costs, and factors relating thereto", 11 Apr 1945; 7—"Rural Amenities", 18 May 1945; 8—"Irrigation, Water Conservation and Land Drainage", 11 Dec 1945; 9—"Rural Land Tenure and Valuation", 20 Jun 1946; 10—"Commercial Policy in Relation to Agriculture", 7 Aug 1946.

[5] Para 134 of Report.

Accordingly the commission laid down basic principles for the guidance of the new scheme. These were that only those with adequate qualifications and experience, and those willing to undergo a period of intensive training including on-farm employment, should be eligible for selection. Not much importance was attached to pre-discharge training, but the commission stressed that the success of the scheme would depend heavily on the quality of those selected and on post-selection training procedures. Equally important was the selection of suitable areas for sub-division. Selection of land was to include a full assessment of market prospects for any new types of production, a detailed soils survey for irrigation projects and large-scale sub-division, and examination of the availability of social amenities in the area. Farms were to be of sufficient size to enable a reasonable living to be extracted and to enable diversification without sacrifice of income prospects. Detailed attention was given by the commission to the valuation of land acquired for settlement for the purpose of payment of compensation. It proposed that all land be purchased at prices ruling on 1st September 1939. Irrespective of these prices, however, land was to be transferred to settlers "at a fair value, having regard to the productive capacity when fully improved, with due allowance for the cost of further improvement necessary to bring the farm to full improvement".[6] "Fair value" was not defined, but the commission's clear intention was to avoid the previous experience of overcapitalisation. Finally, a clear-cut division of responsibility between the Commonwealth and States was proposed, including a sharing of costs after mutual agreement about settlement projects. By this means the commission hoped to avoid the States' promotion of uneconomic settlement projects.

The commission's report was sent to a Cabinet sub-committee in May 1944 from which emerged six general principles for the guidance of ex-service land settlement.[7] As presented to the Premiers' Conference in August 1944, these were as follows:

1. That land settlement of servicemen should be undertaken only where economic prospects for the production concerned are reasonably sound; the number to be settled should be determined by settlement opportunities rather than the number of applicants.
2. That servicemen should not be assisted to become settlers unless a competent authority is satisfied as to their suitability, qualifications and experience.
3. That settlers should be allotted sufficient land to enable them to farm efficiently, and to earn a reasonable labour income.
4. That lack of capital should not preclude a serviceman, otherwise suitable, from settlement.
5. That all settlement financially assisted by the Commonwealth should be on a perpetual leasehold basis with option to purchase.
6. That adequate guidance and technical advice should be available to settlers through agricultural extension services.[8]

The fifth of these principles was the only one about which there was room for serious argument. The Government believed strongly, however,

[6] Para 220 of Report.

[7] Full Cabinet Agenda 665 and 665A; decision 26 May 1944.

[8] *Proceedings of the Conference of Commonwealth and State Ministers,* Canberra, 25 and 26 Aug 1944, p. 23.

that the problem of overcapitalisation could best be avoided by the use of leasehold tenure. This would obviate the need to determine land values when agricultural prices were expected to be unusually high immediately after the war; it was also in accord with the Labor Party's philosophy of retaining public ownership of rural land.

Within this framework the States were offered a choice of administrative and financial arrangements. The first option was for the States to assume major responsibility for the promotion of settlement. They would be the lessors, arrange finance, and bear the major part of any losses on development projects. The Commonwealth's contribution would be restricted to the provision of training and meeting a smaller proportion of any losses. The second option was for these roles to be reversed: for the Commonwealth to act as principal, have the deciding voice in the determination of policy details, and accept the major financial liability. In this case the States would act as "agents" for the Commonwealth and share in the administrative and development costs on a reduced scale.

While it was unusual for an approach to the States to be framed in this way, the Government had a clear objective in mind. Ex-service land settlement involved both repatriation (a Commonwealth responsibility) and land development (a State function). It was judged desirable, therefore, that both levels of government be involved, but not as equal partners which would lead to squabbling about who had the ultimate right to decide whether to proceed with particular projects. Thus, one or other level of government should have the major power of decision and, correspondingly, the greater financial commitment. By offering the States a choice of roles, the Government was highlighting the principle that the extent of the decision-making authority must carry with it a parallel financial obligation. The scheme was expected to result in heavy losses, and the Commonwealth was determined to be absolutely clear from the outset about how losses were to be shared.

The Prime Minister's handling of the discussion with the Premiers on this subject at meetings in August and October 1944 can only be described as masterly. He felt keenly that his Government should not be party to a repetition of the events of the nineteen twenties and thirties and he had prepared himself thoroughly for the conference. To those Premiers who reacted with cultivated sensitivity to any Commonwealth proposal which appeared to trespass the constitutional authority of the States, Curtin responded logically, clearly and constructively; but, as the need arose, he was willing to expose ruthlessly any expression of narrow self-interest. In a moment of exasperation he declared:

> . . . I find myself . . . like a man having to tread the Hampstead Maze. By yielding a point to one State the Commonwealth creates a difficulty with another State. I wonder how there can be on the part of the Commonwealth an overall policy in relation to the interests of so substantial a section of the community as our former servicemen in a matter of this kind. . . .[9]

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[9] *Proceedings of the Conference of Commonwealth and State Ministers*, Canberra, 3 to 5 Oct 1944, p. 11.

At no stage, however, did the Prime Minister lose sight of his objective. Due largely to his patience and imagination an agreement was devised which enabled ex-servicemen to have an opportunity for land settlement in all States on terms which gave them at least a reasonable chance of success.

The disputes that arose were not merely between the Commonwealth and the States as a whole. Just as important were those between individual States. The first item which divided the States was the method of land tenure. The perpetual leasehold system was broadly acceptable to those States with a large land area in relation to population because these were the States which tended to favour some form of leasehold rather than disposal of Crown land. Queensland was the most active supporter of the Commonwealth's perpetual leasehold proposal. At the other extreme Victoria, which had encouraged private ownership of land as a matter of policy, refused point blank to have anything to do with leasehold. The matter was complicated because of the multiplicity of tenure practice and generated such feeling that on this matter of principle—and this matter alone—the Commonwealth conceded and agreed "that all settlement financially assisted by the Commonwealth shall be on the basis of the land laws of the States".

There was disagreement, too, about whether the Commonwealth should accept the major or minor share of responsibility. The economically more powerful States preferred to assume the major role themselves, but the weaker States placed financial considerations above State rights and chose the lesser role of "agent" for the Commonwealth. The weaker States —South Australia, Western Australia and Tasmania—had suffered relatively heavier losses as a result of the 1914-18 war scheme, and were also the States (Tasmania excepted) which appeared to have greater settlement potential.

The Government responded flexibly. At the second round of discussions in October 1944 New South Wales, Victoria and Queensland were offered a draft agreement which designated the States as principals and gave the States the major financial responsibility. These States were to provide the capital funds and one-half the development costs and one-half of subsequent losses. A separate agreement was prepared for South Australia, Western Australia and Tasmania in which these States were designated "agents" for the Commonwealth with the Commonwealth accepting responsibility for the provision of capital funds and three-fifths of development costs and subsequent losses. In other respects the drafts were similar: the principles were the same and in each case agreement was required between the Commonwealth and State concerned about particular settlement projects. Apart from financial considerations the main difference was that principal-States were expected to take a higher level of administrative responsibility than the agent-States.

The arrangement was found acceptable to the States despite grumbling by Victoria about the lack of equality in treatment, and there remained

only technical details to be clarified. These were finalised in August 1945,[1] and the agreements were incorporated in the *War Service Land Settlement Agreements Act of 1945*. The States passed the necessary complementary legislation promptly, and the agreements were signed in November 1945.

In so far as legislation was able to provide the foundations for successful settlement, selected ex-servicemen were given a solid start. The scheme included many constructive features. The emphasis on careful selection of men, on preliminary training, and on thorough examination of development proposals has been noted. In addition, it was part of the Commonwealth's responsibility to provide a living allowance during the establishment year. Assistance was also made available for the purchase of stock and equipment under close supervision. Perhaps the most important financial aspect was the provision for the determination of a realistic capital value of the holding. The legislation enabled land to be acquired at prices ruling in February 1942 in accordance with the National Security (Economic Organisation) Regulations, but it was thought that these prices might still be too high in view of the uncertain long-term outlook for primary commodity prices. Thus, land was to be transferred to settlers at prices which were expected to yield the current long-term bond rate plus the living wage when farms were operated at average efficiency.[2] When the assessed valuation was lower than the acquisition price, the difference was to be written off. By this means it was hoped to avoid future overcapitalisation.

Nevertheless, most of those who had taken part in framing the scheme were not optimistic about its outcome. The previous experience had been so disappointing and the forecasts for primary industries in 1944 were so uncertain that heavy losses were thought to be inevitable. The Government's participation was based not on a desire to promote rural development by this means but on the obligation to satisfy the expectations of a limited number of ex-servicemen. Other writers must judge the results, but it seems that the great strength of post-1945 soldier settlement was the mood of pessimism which guided its preparation.

The task of defining general post-war rural policy was, by contrast, much more difficult. Within the Government there was a multiplicity of policy objectives, some inherited from the pre-war period while others originated during the war. A number of the objectives were in conflict; a few were beyond the Commonwealth's constitutional capacity. There was a long-standing desire, shared by the Labour Government, to improve marketing arrangements and at the same time to achieve greater stability in farm incomes. The traditional goal of encouraging settlement on the land had been tempered by the experience of overproduction between the wars, but for defence reasons some new settlement was thought to be

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[1] *Proceedings of the Conference of Commonwealth and State Ministers*, 20 to 23 Aug 1945, pp. 56-60.

[2] Gross returns were to be determined by taking the average of the relevant commodity prices extended back to the nineteen thirties so as to give the price series a deliberate downward bias.

necessary, particularly in northern Australia. Labor Party philosophy pointed to greater equality of income, yet this did not mesh easily with the need, highlighted by the Rural Reconstruction Commission, to improve the economic efficiency of farms by eliminating small units and increasing the capital intensity of rural production. The wisdom of increasing water-storage capacity and of extending the irrigated areas was accepted as an article of faith even though official economists were sceptical about long-term market prospects for vine crops, fruit and rice. Other strands of policy were rationalisation of rural credit facilities, greater expenditure on scientific research, soil conservation and erosion control, regulation of rural land values, and improvement of living conditions in the country by extending the availability of public facilities such as electricity and telephones.

Overriding these objectives, however, was uncertainty about the future role of rural industries. The hard evidence pointed in different directions. On the one hand, statistical information indicated clearly that the contribution of the rural sector to total production and employment was falling, and there was every reason to believe that this trend would continue. There were unlikely to be many employment opportunities created on the land and, as noted, agricultural overproduction was expected to recur after the early post-war years. This prognosis cautioned against any policy which encouraged substantial output expansion. On the other hand, it was equally evident that agriculture would remain the most important source of overseas earnings. These earnings would have an important influence not only on the level and stability of national income, but also on capacity to import capital equipment and raw materials required for the creation of employment opportunities in the industrial sector. On these grounds, then, there was a good case for setting policy in favour of expansion of agricultural production.

The dilemma over production policy was not resolved explicitly. By implication, however, the Government was inclined towards the pessimistic view and against expansion of production. This is the weight of the lengthy statement issued by the Prime Minister in 1946 on "A Rural Policy for Post-War Australia".[3] The statement emphasised two main policy objectives: the need for stabilisation of farm incomes, and improvement in the economic efficiency of farms. There was no mention of production, and farmers were left to themselves to sort out their future course of action. However, by highlighting stabilisation and efficiency, the Government warned by implication about instability in primary commodity markets and about the need for reduction in costs to enable farmers to cope with a possible long-term decline in prices.

Under the heading of stabilisation policy the Government was able to point to a heterogeneous collection of wartime expedients and initiatives. International economic diplomacy had been directed towards increasing

[3] The statement originated with a paragraph in the White Paper on "Full Employment in Australia" which promised a full review of rural policy when the work of the Rural Reconstruction Commission had been completed. The statement was prepared as a White Paper but was downgraded to a ministerial statement.

world demand for food and raw materials and towards lessening the amplitude of price fluctuations. Long-term purchase agreements had been negotiated with the United Kingdom for meat, butter, cheese, eggs, and dried fruit thus ensuring market and price stability for a number of years. While wool reverted to the free auction system after the war, wool-growers were safeguarded by the guaranteed minimum price offered by United Kingdom Dominion Wool Disposals Limited until surplus stocks accumulated during the war had been sold. Wheat-growers were protected by the continuation of the wartime stabilisation scheme, by the creation of a stabilisation fund in 1946, and subsequently by the enactment of a full stabilisation plan in 1948 and completion of the International Wheat Agreement in 1949. Subsidy payments to the dairy industry were maintained, and acquisition of apples and pears continued while National Security Regulations remained in force. Together with the long-standing control of the sugar industry, these arrangements, while unco-ordinated and capable of distorting the pattern of land use, did give most farmers an unprecedented degree of income security.

Improvement in farming efficiency was largely a matter for the States, but the Commonwealth made a nominal contribution. Additional funds were placed at the disposal of the Council for Scientific and Industrial Research for development of insecticides such as D.D.T., and for research on animal dips, weed control and trace elements. In 1945 the Bureau of Agricultural Economics was established to undertake systematic research into economic problems of agricultural industries. Following the Third Report of the Rural Reconstruction Commission which covered the problem of soil erosion, a Commonwealth-State Soil Conservation Standing Committee was established by the Premiers' Conference in 1945.[4]

There were a number of obvious deficiencies in this piecemeal approach. The steps taken to improve efficiency were merely a token; measures for the stabilisation of individual commodities without reference to alternative land use were likely to increase the rigidity of rural output; little assistance was offered for the reconstruction of farms which had deteriorated during the war. Part of the explanation was the delay in completion of the reports of the Rural Reconstruction Commission. Planning of such important post-war projects as national works, housing, and industrial expansion commenced well before the end of the war at a time of high idealism; the absence of a clear and succinct statement about rural needs allowed the matter to be deferred. By 1947 when the commission had completed its ambitious series of surveys, the political importance of reconstruction had declined and the Government was preoccupied with more urgent matters. Further, there is substance in the claim of agricultural economists writing in the 'fifties that rural industries did not receive high priority because of obsession with employment-creation in the main centres of population.[5] Finally, uncertainty about the appropriate level of

[4] *Proceedings of the Conference of Commonwealth and State Ministers,* Canberra, 20 to 23 Aug 1945, p. 80.

[5] For example, D. B. Williams, *Economic and Technical Problems of Australia's Rural Industries* (1957), Ch. 2. See also J. G. Crawford, *Australian Agricultural Policy* (Joseph Fisher Lecture in Commerce), Adelaide 1952.

production was an ubiquitous barrier to decision-making. While the need in the 'fifties for rapid expansion in output was not anticipated, the appropriate rider is that few authorities have ever been able to predict accurately the required rate of change in production of farm commodities.

Sufficient has been written already to indicate the impact of the federal system on the dissolution of much of the reconstruction programme. But two further points should be added. First, the continuation of high employment in the early post-war years also took its toll. The decline of interest in the National Works Council is the clearest example; the failure of the government housing programme is another. Even though the test of the full employment policy was not expected to come until about four years after the end of the war, the over-full employment of 1947 and 1948 diverted attention from the pessimistic wartime forecast. Second, the Commonwealth was not always prepared to support its ideas with finance. Indeed, the Department of Post-War Reconstruction was better at devising new schemes than in estimating costs and establishing priorities. Schemes were advanced vigorously to the States, but in the event the resources were simply not available to put the ideas into effect. Among the casualties were housing, railway standardisation, regional planning, and rural reconstruction. The irony was that Chifley, who had done so much to encourage the flow of new ideas as Minister for Post-War Reconstruction, was primarily responsible, as Prime Minister and Treasurer not very long afterwards, for cutting the cloth to fit the cost.

CHAPTER 24

INDUSTRIAL RECONSTRUCTION

FROM the outset of post-war planning, manufacturing industries were expected to carry the burden of preserving full employment. Munitions production had forced the pace of industrialisation; new industries had been established; the level of technological sophistication in the metals and engineering group had increased substantially. Much depended, therefore, on the ability of manufacturers to adapt to the altered structure of peacetime demand, and to withstand the resumption of competition from imports.

In view of the acknowledged importance of manufacturing, one might have expected the preparation of a comprehensive plan for the conversion of industries to peacetime. But no such plan was prepared, and the patchwork approach characteristic of reconstruction policy generally was also the approach to secondary industries policy.

Broadly the Government's policy was to preserve existing industries and to extend the range of manufacturing. This was to be achieved partly by defence of the tariff through external economic diplomacy and partly by the encouragement of new industries, notably the motor vehicle manufacturing industry. In addition some attempt was to be made to increase exports of manufactures; a few taxation and other concessions were to be offered to industrial firms to assist conversions; munitions factories and equipment were to be made available on generous terms. But in the main a rapid return to private enterprise was encouraged with minimum government intervention and assistance.

THE SECONDARY INDUSTRIES COMMISSION

The early attention given to industrial conversion to peacetime activity exposed a gap in the Government's administrative structure. Before the war no Commonwealth department had been allocated special responsibility for secondary industries, although several had had a finger in the pie. During the war the Departments of Munitions, Aircraft Production, and Supply and Shipping were responsible for defence production, War Organisation of Industry for civilian manufacturing; of these only Supply was expected to survive the early post-war period. The Department of Trade and Customs administered tariff policy but had little background in the broad policy of industrial development. For a country which had already achieved a high degree of industrialisation, lack of an appropriate administrative authority was a curious anomaly, and one which was only partly rectified by wartime experimentation.

The task of preparing policy was entrusted initially to the Tariff Board. During the war normal Tariff Board enquiries had been suspended, and the board appeared to be the logical starting point. Using National Security (Inquiries) Regulations, the Minister for Trade and Customs commissioned the board in May 1942 to investigate and report on "all aspects of

the general problem of the re-establishment of secondary industries", and specifically to advise on the technical problems of re-adapting plant, equipment, materials, and manpower; to report on the disposal of surplus equipment, on problems of re-establishment of former members of the forces in industrial occupations, on changes since 1939 in industrial concentration, and on the general system of tariff protection in Australia. The Minister accepted that all aspects of such a comprehensive reference could not be explored immediately because of wartime uncertainties. In effect the board was offered a long-term brief to advise on all aspects of secondary industry policy.

The invitation was declined by default. The board had neither the inclination nor expertise to venture into policy-making on a grand scale. Since its creation in 1921 it had been concerned almost exclusively with the examination of the level of protection required for particular firms and industries, and only on rare occasions had it taken time to stand back and view the edifice that it had helped to build. In any case as an advisory body without executive authority the Tariff Board was not the appropriate authority to originate high policy, although it could have played a positive part in indicating the available alternatives. In the event the board was content with a series of piecemeal investigations of those industries which might play a part in post-war industrial development. In all twenty-four reports were made under the 1942 reference on subjects ranging from the aircraft industry to knives and forks. Using traditional methods of comparing local costs and import prices, most of the reports were necessarily based on obsolete information, and were so vague as to be of little help in planning. At best the board made guesses about what was likely to happen after the war in a fairly narrow range of small industries.[1]

In view of the Tariff Board's diffidence and the obvious need to fill the administrative gap, in October 1943 the Department of Post-War Reconstruction proposed the creation of a Secondary Industries Planning Commission with a comprehensive charter to prepare for industrial conversion and also to consider the implications of manufacturing development for "population and employment, living standards, increased productivity, defence considerations, decentralisation, and international relations" and to "recommend the extent and form of government control with particular reference to variation of wartime controls and . . . to advise on various forms of assistance to industry other than tariffs".[2] The Full Cabinet considered this to be far too wide a brief which would have involved encroaching on too many existing departments. In approving the appointment of a commission the Cabinet narrowed the focus to the immediate task ahead. The approved terms of reference were:

(a) review and investigate the wartime developments of the Commonwealth, with particular regard to Government factories, particularly munitions establishments and annexes; and

[1] Reports were presented on aircraft manufacture, cutlery, boots and shoes, household crockery, paper and paperboard, electric motors, carpets, hacksaw blades, lawnmowers, tool files, typewriters, filament electric lamps, tiles, electric cable and wire, sewing threads, bicycles, plastics, and gloves.

[2] Full Cabinet Agendum 550, 19 Oct 1943.

(b) recommend to the Government measures which should be taken to implement a policy of industrial development in the Commonwealth.[3]

As with the two other commissions, the Secondary Industries Commission was attached to Post-War Reconstruction and its status was advisory. But more than the others it was overlaid with an elaborate structure through which its advice was channelled and through which more important investigations were conducted.

To examine policy recommendations a Cabinet sub-committee on secondary industries was appointed.[4] On questions affecting conversion before the end of the war, the commission was required to work through the Department of War Organisation of Industry (for new manufacturing permits) and the Capital Issues Advisory Committee (for permission to raise new funds). On the investigation side, the commission was required to work in collaboration with the Tariff Board and specialist Industry Advisory Panels.[5] Such major subjects as shipbuilding and motor vehicles were taken out of its hands by the appointment of *ad hoc* inter-departmental committees. And then in January 1945 Post-War Reconstruction created a Secondary Industries Division in the department which became responsible for the executive, administrative and research work generated by the commission. Individually each of these arrangements had some merit, particularly the assistance of the Tariff Board and Industry Advisory Panels. Collectively the maze of checks and balances left the commission with little scope for initiative in its own right and it became yet another co-ordinating body.

Of the five original members of the commission, three were drawn from the Department of Munitions. The commission's chairman and dominant personality was J. K. Jensen, Secretary of Munitions. Other Munitions representatives were F. T. Merrett, Director, Small Craft Construction, and W. Scott,[6] member of the New South Wales Board of Area Management. The remaining members were D. J. Nolan,[7] chairman of Allied Supply Standing Committee, and S. F. Cochran,[8] chairman of the State Electricity Commission of Queensland. This composition reinforced the impression that the Government's first priority was the conversion and disposal of munitions factories and annexes. Before considering

[3] Full Cabinet meeting, 20 Oct 1943.

[4] Ministerial membership: Post-War Reconstruction, Attorney-General, Supply and Shipping, War Organisation of Industry, and Munitions.

[5] The Secondary Industries Commission appointed the following industry panels: Chemical Industry Panel, Electric Motor Industry Panel, Furniture Industry Panel, Leather Industry Panel, Mining Industry Panel, Optical Industry Panel, Plywood Industry Panel, Radio and Communications Industry Panel, Refrigerator Industry Panel, Stoves and Ovens Industry Panel, Textile Industry Advisory Panel.

[6] Sir Walter Scott, CMG. Princ W. D. Scott & Co—retired as Gov Dir 1974. Dpty Chmn NS Bd Area Managt Dept Munitions; Mbr Secondary Ind Comm 1944-51; Aust Alum Prodn Comm 1944-52; Chmn C'wealth Decimal Currency Ctee 1959-60; Chmn Aust Decimal Currency Bd. B. Perth, 10 Nov 1903.

[7] D. J. Nolan. Power Supt Elect Dept Syd 1929-34; Commerc Mgr 1935-37; Asst Gen Mgr Syd County Counc 1938-44, Gen Mgr 1944-46; Chmn Stdg Ctee Allied Supply Council; Mbr War Commitments Ctee; Mbr Second Ind Comm. B. Melbourne, 6 Dec 1898. Died 27 May 1946. Nolan resigned in Mar 1944 and was replaced by H. F. Morris, chairman of the Tariff Board, in Oct 1944. H. P. Breen, Director of the Secondary Industries Division, was added to the commission in Jun 1947.

[8] S. F. Cochran, CBE. Chmn Qld Elect Comm and Commr for Elect Supply 1938-50; Sec Ind Comm 1944; Dep Dir Rationing Qld 1942-44; Chmn Joint Coal Bd NSW 1950-63. B. Glasgow, Scotland, 30 May 1898.

the disposal of factories, however, the broader and potentially more far-reaching of the commission's tasks—the formulation of policy for general industrial development—will be considered.

PRINCIPLES

Discussion of the principles used by the Secondary Industries Commission and its associates is handicapped by the absence of documentary evidence to indicate that there was any systematic examination of policy alternatives. Theoretically the war provided an unparalleled opportunity to influence the structure and location of industry, the composition of output, and methods of finance; and to reconsider the function of such policy instruments as the tariff, import licensing, company taxation, and export incentives. In the broadest possible terms, the way was opened for a discussion as to whether Australia should pursue a policy of industrial self-sufficiency as in the past, encouraging maximum import replacement; or whether she should concentrate available resources in a restricted range of relatively efficient industries with export prospects. While specific issues such as taxation policy, decentralisation, and industrial finance were discussed, the nearest to a general examination of policy issues was a debate between Post-War Reconstruction and the Division of Import Procurement on the need for import licensing to supplement tariff protection. The principles on which decisions were based can, however, be teased from the detailed industry studies that were made and from the nature of the commission's recommendations.

The principles that were applied were drawn from the tradition of extending the range of manufacturing production as far as possible, and from the contemporary policy goals of creating new employment opportunities and strengthening national defence. There were strong pressures from all corners of the Government to preserve war industries and to fill in gaps in the range of production. If reinforcement was required it was supplied by the dominance of Munitions representatives on the commission. But it would be misleading to suggest that the desire for manufacturing expansion was indiscriminate. The commission's assessment in 1944 was that if all wartime capacity could be adapted successfully for peacetime production, the domestic supply of manufactures was likely to run well ahead of demand. This assessment was not derived from detailed research, but was based on the instinctive pessimism generated by the Financial and Economic Committee which has been noted before. The conclusion was, therefore, that the axe would have to fall, albeit gently. In selecting those industries for pruning or abandonment, economic efficiency played some part. Officials in Post-War Reconstruction were conscious of the large number of high cost firms established during and immediately after the war of 1914-18, and were anxious to apply efficiency criteria more rigorously than in the past. Support for some wartime industries was withdrawn for this reason, notably for the optical equipment industry. But for those industries such as textiles, which offered prospects for employment-creation, efficiency was not a major consideration.

Most of the measures taken to promote expansion were of a discretionary character and designed to assist specific industries. Such measures included sponsorship by the Secondary Industries Commission of new manufacturing orders, and similar representations to Capital Issues; arrangement of the lease or purchase of munitions factories or of capital equipment on favourable terms; and the promotion of particular industries —notably manufacture of motor vehicles—through import and foreign exchange concessions, transport subsidies and, occasionally, direct financial assistance. In addition, a narrow range of instruments was used to encourage general expansion.

At the general level was, first, the decision to prolong the wartime system of import licensing. Licensing had not been used previously for protective purposes, and as applied to imports from Commonwealth countries was *ultra vires* the Ottawa Agreement of 1932. The Division of Import Procurement as the administering authority had assumed, therefore, that the system would be abandoned progressively and that the tariff would resume its traditional role. When the matter was under discussion in 1944, Import Procurement urged that some relaxation was justified immediately to ease the shortage of essential consumer goods, and to obtain capital equipment and raw materials needed for reconstruction. It complained about the administrative burden and argued that indefinite continuation of the rigorous wartime system might have a detrimental effect on the flow of Lend-Lease. Further, the United Kingdom might retaliate by restricting further the use of sterling balances. On the other hand, Post-War Reconstruction was fearful of the effect of a flood of imports from Europe and North America if the European war ended well before the defeat of Japan. Moreover, there was no means of knowing what effect the war had had on the protective incidence of the tariff. Clearly what was required was a detailed integration of import policy with the plans for manufacturing expansion, but the Secondary Industries Commission had still no clear idea of which sectors it should promote or where there existed scope for import replacement.

Full integration was never achieved, but during 1945 a compromise was worked out between the Department of Trade and Customs and the Department of Post-War Reconstruction. The Secondary Industries Commission supplied a list of those industries in which it was specially "interested", while Trade and Customs agreed that there should be no general relaxation of quota restrictions. As recounted earlier, quotas were eased from August 1944 onwards but primarily to augment supplies of plant, equipment and building materials from the sterling area. Stringent quota restrictions were retained against non-sterling imports and against most consumer goods customarily imported in large quantities from all currency areas. At the same time an inter-departmental committee was appointed to review continuously the operation of the system. Uncertainty about the balance of payments rather than the need for protection was the decisive factor. Nevertheless, continuation of quotas for a comprehensive range of imports did provide a powerful stimulus to post-war industrial

expansion.[9] In the event this stimulus was far greater than anything the Secondary Industries Commission acting within its own sphere of responsibility was able to achieve.

The commission was indirectly involved in three other areas of activity intended to encourage general manufacturing development. These were special taxation concessions for industry, extension of existing facilities for specific and technical research, and the provision of finance for small manufacturing firms. The last mentioned has already been discussed in relation to the banking legislation of 1945.

On the advice of the commission, a special taxation committee was appointed in mid-1944 under the chairmanship of J. H. Scullin for the purpose of recommending changes in company taxation to assist the changeover to peacetime production. The special committee's recommendations were reflected in the *Income Tax Assessment Act (No. 2)* of 1944 which came into operation on 6th October. Deductions were allowed for the estimated cost of maintenance of buildings, plant, machinery, and other property where maintenance had been deferred because of the war. Deductions were also allowed for expenditure in effecting alterations to plant and machinery for war purposes, and in reconverting them later for civilian production. These deductions replaced the usual depreciation allowances. Under pressure from the Associated Chambers of Manufactures, further minor concessions were granted in April 1946. The most important were deductions for research expenditure. Payments made to research institutions and capital expenditure on both scientific research and on buildings for research purposes were made allowable deductions under certain conditions. As partial compensation for the high post-war cost of machinery and to help potential exporters of manufactures a special depreciation rate of twenty per cent was allowed on income-earning plant and machinery acquired within five years from 30th June 1945.[1]

In addition to the taxation arrangements for research expenditure, the commission was itself involved in a small way in promoting research and improved efficiency. Technical assistance was supplied to Industry Advisory Panels, and the work of the Council for Scientific and Industrial Research and the Munitions Supply Laboratories was made available. Following a conference in 1945, a C.S.I.R. proposal to form a National Association of Testing Authorities[2] was accepted by the Government. Some store had been placed on a Tariff Board investigation of "Efficiency and Costs of Production in Australian Industries", but the report which was presented in May 1946 was of no assistance. The board had no

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[9] G. G. Moffatt, *Import Control and Industrialisation: A Study of the Australian Experience* (1970).

[1] The committee continued to operate after the war, and, as a result, concessions were granted covering the cost of overseas visiting consultants and technicians in 1946, and in 1947 allowances, which had previously only been available for gold-mining, were extended to the metalliferous mining industry.

[2] The association was formed to co-ordinate the work of and to register the various testing authorities which were scattered throughout the Commonwealth. The Commonwealth and State government subsequently approved the association's constitution, and the first meeting of the Governing Council was held in Feb 1947.

suggestions of its own to make and merely collected a number of well known assertions about the reasons for relatively high costs in Australia.[3] Of greater long-term significance were the research grants scheme and the decision to establish the Australian National University.

THE ROLE OF EXPORTS

Before considering the promotion of particular secondary industries, attention should be given to the effort that was made to extend the market for Australian manufactures. While secondary industries were expected to carry the burden of creating new employment opportunities in the private sector, the forecasts of 1944 were that existing industrial capacity would be more than adequate to meet domestic demand. Export promotion was one way of dealing with over-supply, and in partial consequence an inter-departmental Export Committee was established in May 1944. But formation of this committee was also linked with the attempt to reallocate manpower resources, screen reciprocal aid, and meet Australia's U.N.R.R.A. commitment in the Far East. A short digression is necessary, therefore, to sketch the background.

It will be recalled that in order to conserve manpower the War Cabinet in April 1942 had decided to discontinue munitions exports except for certain supplies required by Australian troops abroad. The decision was not followed strictly by the Department of Munitions, and the War Cabinet found it necessary to cancel new overseas contracts in April 1943 and impose rigid control of the assignment that was permitted. On this occasion the instructions were followed, but Munitions continued to resent the loss of entrepreneurial opportunity.

As soon as circumstances permitted, the case was reopened. The opportunity was provided by a visit, from December 1943 to February 1944, of representatives of the Eastern Group Supply Council who sought relaxation of export restrictions. The case submitted by Munitions and Supply in support of the E.G.S.C. view was based partly on the old argument that war production could be allowed to run on, without absorbing new manpower, and partly on the contention that supplies of cotton cloth and piece-goods obtained from India might be threatened unless there was a sympathetic response from Australia. Further, it was claimed that requests from the Netherlands East Indies as well as India for such items as blankets,[4] railway equipment and transmitters offered good prospects for establishing Australian manufacturers in these markets ahead of other suppliers. The submission involved not only manpower considerations but also a basic principle of war policy—the supply priority of the South-West Pacific Area. The Ministers for Supply, Munitions and Aircraft Production concluded by questioning this principle:

> . . . the time has arrived for a reorientation of our attitude towards meeting the war needs of other theatres of operations. The threat of invasion has passed and

[3] *Parliamentary Paper*, No. 67 (Group A)—F.4627, 24 May 1946.

[4] Production Executive had already decided to permit the export of 1,000,000 standard blankets to India on the grounds that stocks were adequate and productive capacity was available. Production Executive Decisions 390 and 410, 11 Nov and 6 Dec 1943.

we cannot afford to stand aloof. Officers of the Forces, Government officials and businessmen recently returned from India emphasise that our prestige both in official and business circles has been seriously impaired owing to the failure to meet our commitments. . . .[5]

There was a case for improving relations with the E.G.S.C. and for allowing limited exports of those goods which had been allowed to accumulate in stockpile. Essentially, however, this was a last-ditch stand against the cut-back in war production.

The Full Cabinet approved the appointment of an Export Committee[6] but shied away from the much needed task of integrating the administration of export control. Thus, the committee was merely added to the existing structure with responsibility for non-military, non-food, non-South-West Pacific Area exports. Its main responsibility was to consider applications for supplies from the E.G.S.C., New Zealand and the Netherlands East Indies; and then in July 1944 the task of screening relief provided through U.N.R.R.A. was added.[7] However, the Department of Commerce and Agriculture remained in control of food exports as did the Defence Committee of distinguishing between "assignable" and "non-assignable" munitions and of the level of permissible assignment. Reciprocal aid was of course excluded from these arrangements, and was subject only to capacity to supply and financial limitation by the Treasurer. Further, special arrangements had been made in September 1943 for the supply of civilian needs to the Pacific Islands.[8] The chairmanship of the Export Committee was entrusted to the Minister for Trade and Customs whose department was not directly involved in the administration of war export control, but otherwise the usual device of an inter-departmental committee[9] was chosen to reconcile the various interests involved. The division of responsibility could be justified by bureaucratic logic and the special knowledge of individual authorities, but as with the larger manpower question the decision-making structure was inadequate to allow rational reconciliation of competing claims. Indeed, the hydra-headed system of export control permitted disputes to flourish, particularly between the Defence and Export Committees as to the definition of "munitions" and authority over "assignable" items.

Proceedings of the Export Committee were in essence a repetition of those of the War Commitments Committee. The Manpower Directorate stressed continuously its fundamental point that exports represented a loss of manpower to the domestic economy, and was opposed to any significant liberalisation of control. War production departments for their part adopted their customary attitude: additional manpower was not involved

[5] War Cabinet Agendum 77/1944.

[6] Full Cabinet Agenda 633A and 656; War Cabinet Agendum 77/1944. All were considered by the Full Cabinet on 10 May.

[7] Full Cabinet Agendum 695; meeting 14 Jul 1944.

[8] In Sep 1943 the War Cabinet directed by Minute 3033 that the "essential needs of the Pacific Islands were to be fulfilled to the maximum extent possible, having due regard to Australia's own essential requirements". For this purpose a Pacific Supply Division was established within the Department of Supply and Shipping.

[9] Membership was drawn from Treasury, Munitions, Manpower, War Organisation of Industry and Supply. Reconstruction and Commerce and Agriculture were co-opted, while departments interested in particular items attended.

in allowing existing production to continue, and for post-war full employment every effort should be made to establish overseas markets for manufactures. The difference was the chairmanship of Senator Keane. Far from providing the impartial arbitration as envisaged, the Minister for Trade and Customs, with the post-war ambitions of his own department in mind, brought to the decisions of the committee a distinct bias in favour of export expansion. Initial priority was given to mending fences with the E.G.S.C. With the lifting of the export prohibition against "non-assignable" munitions, the committee pushed hard for the completion of old orders and the clearances of surpluses held in Australia. But its efforts to take a global view of its export control authority were resisted. As far as "non-assignable" items were concerned, the Defence Committee reserved its right to retain authority over the assignment of munitions which were within the current consolidated programme and could not be spared from available stocks. In these circumstances the Export Committee made recommendations and acted as a channel for the transmission of orders; its executive authority was limited to those occasions when orders could be filled by drawing on excessive stocks or when the item required was outside the consolidated programme. In the case of commercial export orders which hitherto had fallen within the jurisdiction of Commerce and Agriculture, that department was persuaded to surrender its authority to the extent that orders in excess of £25,000 were to be submitted to the committee for approval.[1]

Useful work was undertaken by the committee to facilitate the supply of items urgently needed by India, the Netherlands East Indies, and New Zealand. Among the first consignments approved were 2,800,000 blankets and "comparable quantities" of socks and singlets for India, 64,000 tons of cement for use by United States forces in India and China, and locomotive headlight bulbs for Indian railways.[2] Initially approvals were closely related to the availability of items from stock. Thus, an Indian request for a large quantity of bone or plastic buttons was modified to an approved order for 25,000 gross brass buttons. Consistently rejected were requests for building materials and most types of steel goods. However, a consignment of rubber (other than tyres and tubes) was sent to New Zealand despite the desperate local shortage. By August the committee was using more flexible principles. In addition to availability from stock, it had decided that, in general, approval would be given if the item could be produced in a munitions factory located in a country district where surplus manpower was available, if it could be supplied from "run of work" production without *additional* manpower, and if it could be made available with minor adjustment of production and manpower.[3] These principles were developed specifically for the purpose of examining a shopping list with a budget of £30,000,000 for civilian relief and recon-

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[1] Second Report by chairman of the Export Committee to War Cabinet, War Cabinet Agendum 415/1944, 23 Aug 1944.
[2] War Cabinet Agendum 365/1944.
[3] War Cabinet Agendum 415/1944, 23 Aug.

struction in the Netherlands East Indies. While the circumstances of the Netherlands East Indies warranted sympathetic consideration, the principles reflected plainly the argument in favour of making use of available capacity so frequently employed by Munitions and Supply to resist compression. The War Cabinet reminded the committee of the priority of the South-West Pacific Area,[4] and occasionally cancelled an order which had received the committee's approval.[5] Even though Netherlands East Indies orders were slashed and stringent tests applied to orders for civilian goods, the tendency to approve consignments of military goods represented a small but distinct leakage from manpower reallocation intended for reconstruction.

The role of exports in reconstruction was the main subject of a War Cabinet submission by Senator Keane in August 1944. In support of a specific allocation for exports in the 1944-45 manpower budget, the Minister argued:

> Australia's geographic situation is such that it is likely to be a focal point in war supply until the final cessation of hostilities against Japan. It is unlikely that other Empire and Allied countries will need to keep all their resources active for the purpose of continuing the Pacific War when the European War closes or diminishes. Surplus capacity in those countries arising from partial demobilisation of forces or industrial effort will be available for the improvement of civilian standards and for development of the export trade. If Australia makes no provision for exports now and progressively as the war develops in our favour, it is likely that we will commence the post-war period with the Netherlands East Indies and other prospective markets already well developed and supplied by our trade competitors.[6]

The argument was based on three assumptions: the expectation that the war in the Pacific would drag on well after the end of the war in Europe; the export of military equipment and relief supplies would incline importers of manufactures in Australia's favour in the post-war period; and the case for export expansion was sufficiently strong to warrant a high priority rating. As noted earlier, the Production Executive accepted that a case existed but accorded exports a low priority. The submission for an allocation of 14,500 men and 5,800 women was amended to read 8,100 men and 4,300 women in the original manpower budget of 1944-45. In the revised budget of February 1945, the allocation of men was reduced to 4,000. Most of the smaller allocation was in fact achieved because labour was simply retained in war production establishments. The allocations made possible a small contribution to relief and reconstruction in the Far East, especially in the Netherlands East Indies. Notable among the consignments at the end of 1944 and early in 1945 were large quantities of machine and hand tools, railway equipment, concentrates of zinc and lead, and clothing and woollen goods. But labour shortage reduced the export programme to an exercise in tokenism.

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[4] War Cabinet Minute 3732, 23 Aug 1944.
[5] For example, 400 kerosene refrigerators for the Eastern Group Supply Council.
[6] War Cabinet Agendum 415/1944, 23 Aug.

Leaving aside the manpower problem, reliance on the Export Committee remained a crucial weakness in the development of post-war export policy. Representing sectional interests as it did, the inter-departmental structure was inappropriate. For a systematic examination of those products which were likely to achieve export penetration after the war, an expert authority was required along the lines of the Tariff Board. In the event the Export Committee relied on the convenient but invalid assumption that wartime exports could lay the foundation for post-war trade. Officials in the Department of Post-War Reconstruction recognised this weakness, but the department was not a powerful voice on the committee. In any case research officers were sceptical of the success of any attempt to estimate comparative costs. The exercise would have been difficult, but there was sufficient evidence to indicate that steel and related industries were capable of export development.

During 1945 attempts were made on several occasions to create machinery suitable for the development of the export trade in manufactures. Establishment of an Australian Export Trading Corporation was proposed by the Secondary Industries Commission and endorsed enthusiastically by Dedman. Functions of the corporation were: to obtain orders from overseas, place orders with local manufacturers, assemble goods and equipment which could only be supplied on a sub-contracting basis, underwrite production in excess of overseas orders in hand, hold stocks against subsequent sale, undertake shipment and delivery of goods, guarantee payments of manufacturers, and undertake market research.[7] As the scheme cut across existing bureaucratic interests it received stiff opposition, and was submitted to the death-watch of a Cabinet subcommittee. Coombs attempted to revive it in 1947 but without success.

In June 1945 the Minister for Trade and Customs broached the subject of the division between his own department (which was concerned with imports) and Commerce and Agriculture (normally responsible for exports). Senator Keane suggested a partial merger of the trade components of the two departments by reconstituting the Export Committee as a standing committee on trade policy, or by setting up a board of trade.[8] This was much too close to a take-over of Commerce and Agriculture by Trade and Customs, and in self-defence the former department insisted that all that was necessary was a strengthening of the Trade Commissioner Service. This proved to be the line of least resistance: in October 1945 the Government announced the first of a series of trade commissioner appointments which ultimately improved the service, but the question of reorganising trade policy sections was deferred.

MOTOR VEHICLES

As with planning in other sectors, the manpower shortage seriously restricted preparations for industrial conversion. Rigid controls were maintained until May 1944 when the Full Cabinet permitted an element of

[7] Full Cabinet Agendum 838, 24 May 1945.
[8] Full Cabinet Agendum 869, 19 Jun 1945.

relaxation. In response to a request from General Motors-Holden's to be allowed to engage in active post-war planning (including production of a pilot model of a car), the Cabinet agreed that in special circumstances planning could proceed for the production of those goods "essential in the immediate post-war period". It instructed, however, that there was to be no general diversion of manufacturing capacity from the war economy, and that the Secondary Industries Commission and the New Manufactures Section of War Organisation of Industry were to determine jointly the industries or products which were to receive sponsorship.[9] However, manpower remained the stumbling-block, and by the end of 1944 little tangible progress had been made. At the beginning of 1945 Post-War Reconstruction submitted a request for 8,000 men to be allocated to essential civilian manufacturing in the revised manpower budget of 1944-45, and another 9,000 for reconstruction planning. Actual allocations were 2,000 men each. Thus, before V-E Day the scale of re-equipment and rebuilding was of negligible proportions. The scale of physical preparation accelerated in the final months of the war, but the achievement still fell well short of the target.

Although the paper planning was not matched by an inflow of resources, a few of the projects undertaken by industry panels, *ad hoc* committees, and the Secondary Industries Commission itself were ultimately of considerable significance. Easily the most important was the agreement with General Motors-Holden's for the production of an Australian car. Indeed, the future of the motor vehicle industry was the dominant consideration of secondary industries policy from 1943 onwards. From the outset the objective was the production of a substantially all-Australian passenger vehicle and, hopefully, trucks and heavy equipment. An Australian motor vehicle industry was expected above all to offer substantial employment opportunities, but would also strengthen defence capacity, save foreign exchange, and make use of munitions buildings and equipment (and the engineering skills associated with them).

The story had begun in 1936 when the Lyons Government announced the imposition of restrictions on the import of motor vehicle chassis, and its intention to offer a bounty on the local production of motor engines. At the same time the Tariff Board was instructed to report on the best means of achieving domestic production of engines and chassis, for in the interwar period the industry consisted largely of body-building and assembly of the complete car from imports of chassis and engines. In 1938 the board advised against attempting to achieve complete local manufacture in one step and, although it believed that certain chassis parts could be produced without increasing the already high price of cars, it was unable to agree on an appropriate course of action. With war imminent the Government took the matter into its own hands. The *Motor Vehicle Engine Bounty Act* of 1939 provided for the payment of a bounty on engine units produced in Australia on condition that the units were manufactured by companies owned or controlled mainly by British sub-

[9] Full Cabinet Agendum 660; decision 31 May 1944.

jects resident in Australia. Bounties were to be paid on a sliding scale up to a limit of 60,000 engines containing not less than ninety per cent of Australian materials. This was followed by the *Motor Vehicles Agreement Act* of 1940 which authorised an agreement between the Commonwealth and Australian Consolidated Industries Ltd for the production annually of 20,000 engines and chassis which would have had the effect of conferring on the company a monopoly for the time being. For an essential feature of the Act was that the Government undertook to safeguard the interests of Australian Consolidated Industries against foreign or foreign-controlled companies as well as conferring other benefits such as payment of the engine bounty, offering to purchase a "substantial proportion" of its own requirements from the company for a period of five years, and by maintaining strict import control of chassis and engines.

No formal agreement was in fact made with Australian Consolidated Industries because of the deterioration in the military situation in 1941, and no bounties were paid. But the two Acts remained in the statute book and with them the discrimination in favour of local manufacture. Thus, the first task for the foreign-controlled companies was to convince the Government that the Acts were not in the best interests of the industry as a whole. From the outset the pace was set by two companies: General Motors-Holden's (wholly owned by the General Motors Corporation of the United States except for a small issue of fixed-dividend preference shares held in Australia) and the Ford Motor Company of Australia (a subsidiary of the Ford Motor Company of Canada). Other companies who expressed some interest in Australian manufacture—Nuffield (Australia), Chrysler-Dodge Distributors, and Rootes Limited—played a negligible part in subsequent negotiations.

The events which led to acceptance by the Government of the General Motors-Holden's offer to build an Australian car represent one of the most extraordinary and intriguing episodes of the war period. Some aspects of the General Motors-Holden's decision stood the Labor Party's philosophy on its head. At the beginning of 1944 when post-war plans were taking shape, the Government was determined to go ahead with motor vehicle manufacture in order to create employment and avowed two cardinal principles: to avoid creation of a domestic manufacturing monopoly (whether Australian or overseas owned) and to secure substantial Australian equity in the concern if overseas participation was found necessary. By early 1945, when acceptance of the General Motors-Holden's offer was announced, these principles had been discarded in favour of one overriding concern—employment. While the formal record of the decision-making process is complete, uncertainty remains about a number of key steps. The following account traces the formal steps that were taken, and suggests a number of reasons for the unexpected result.

The stage was set by a special Tariff Board report of April 1943 which was intended to update the 1938 report. Board members disagreed as to whether local production should be undertaken in one step or step by step, and uncertainty was expressed about the capacity of the market to

support sufficiently large-scale production. But the board left no doubt that domestic manufacture of the complete unit could and should be undertaken. The main issue raised was the future of the *Motor Vehicles Agreement Act.* The board believed that Australian Consolidated Industries had the capacity to undertake motor vehicle manufacture but would be handicapped in a number of ways, mainly in not having ready access to technical data, plant and equipment. On the other hand, some of the necessary machine tools could be obtained for the first time from Australian sources. On balance, the tone of the report was against relying on Australian Consolidated Industries and the Government was urged to declare its policy as soon as possible.

No further formal action was taken until the second meeting of the Secondary Industries Commission on 2nd December 1943. With a minimum of exploration the commission reached the conclusion that the manufacture of a complete car could be undertaken in Australia and "in view of research facilities available overseas" the Government should not itself become involved in production. The unambiguous message was that overseas assistance should be sought. The Full Cabinet lost no time in authorising a technical investigation by the commission, and a legal examination by the Attorney-General of the implications of the *Motor Vehicles Agreement Act.*[1] In March the commission recommended abolition of the two Acts and the issue of an invitation to prospective manufacturers to submit preliminary plans for the local manufacture of car engines and chassis. Chifley supported the repeal of the Acts so as to assist the forthcoming "fourteen powers" referendum campaign and to avoid creation of a monopoly in the industry.[2] Cabinet deferred the question of repeal until the Attorney-General's legal report was in, and added:

> With regard to the establishment of new industries generally, Cabinet approved of the principle that where Australian capital is available the investment of foreign capital should not be permitted. Where sufficient Australian capital is not available, control is not to be made too rigid with regard to foreign capital.[3]

While Chifley as Minister for Post-War Reconstruction was responsible for the submissions, the crucial influence of the chairman of the Secondary Industries Commission was unmistakable. Jensen had won Chifley's respect and confidence when the latter was Minister for Defence briefly in one of the Scullin Governments, and during the war confidence and respect were renewed. Jensen had made up his mind that Australia needed its own motor vehicle industry after the war and that General Motors-Holden's was the firm best qualified to undertake the project. He also believed, as did a number of others, that the General Motors Corporation would take a lot of convincing. Jensen therefore set himself two immediate tasks. The first was to give as much encouragement and help as possible to L. J. Hartnett, his associate in the Department of Munitions, who had been Managing Director of General Motors-Holden's since 1934. The second

[1] Full Cabinet Agendum 588, 14 Jan 1944; meeting 24 Jan.
[2] Full Cabinet Agendum 588A, 24 May 1944.
[3] Full Cabinet meeting, 27 Mar 1944.

was to use his considerable experience and skill as a senior public servant, and his influence on Chifley, to prevent Cabinet from imposing conditions which he believed the General Motors Corporation would find unacceptable. Thus the reference in the March 1944 submission to the potential Australian Consolidated Industries *monopoly* was intended to evoke a standard Australian Labor Party reaction, but it ignored the established fact that only one manufacturer would be required for the foreseeable future. The softening of the line on foreign investment was also an important concession.

Jensen's next task was to fend off a move by the Minister for Trade and Customs to obtain Australian, indeed Government, control of the industry. Senator Keane proposed in May 1944 that because of the defence significance of motor vehicles the Commonwealth should exercise direct control through the formation of a company in which the Government would have a fifty-one per cent equity, and that a Cabinet sub-committee be formed to explore the matter further.[4] Jensen objected to both the Commonwealth-controlled company and the sub-committee, but Keane secured his sub-committee.[5] But when the sub-committee reported in September, the question of government participation was relegated to a last line of defence and there was no mention of restriction of foreign ownership or control. Instead, the sub-committee produced a package, which Cabinet endorsed,[6] allowing prospective manufacturers to write their own terms with a minimum of restriction. The package comprised (i) a decision to repeal the two Acts which reserved manufacturing rights for Australian Consolidated Industries, (ii) an invitation to interested parties to submit proposals to the Government, (iii) an indication that the Government would, when considering proposals, give preference to a manufacturer who would use government factories for the manufacture of component parts, (iv) an offer by the Government to provide financial assistance by way of freight equalisation to encourage decentralisation. The final part was a statement that the Government would set up its own corporation to manufacture a complete car if it did not receive satisfactory proposals.[7] Invitations to some eighty firms and individuals in the motor trade were despatched on 5th October.[8]

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[4] Twenty-five per cent of the remaining shares were to be offered to a United Kingdom manufacturer of chassis and twenty-four per cent to the public. Full Cabinet Agendum 588B, 9 May 1944.

[5] Appointed on 28 Aug, and comprised Ministers for Trade and Customs, Munitions, War Organisation of Industry, and the Treasurer. Jensen, Merrett and Scott of the Secondary Industries Commission also attended meetings.

[6] Full Cabinet meeting, 12 Sep 1944.

[7] Full Cabinet Agendum 588C, 9 Sep 1944.

[8] Sir Laurence Hartnett in *Big Wheels and Little Wheels* (1964) provides a misleading account in Ch. 23 of the circumstances which led to the decision to repeal the two Acts and the issue of the invitation. He records a conversation he had with Chifley as late as mid-Sep 1944 in which the Treasurer is portrayed as not knowing of the existence of the two Acts, or at least as having forgotten about them. Despite the mountain of paper work Chifley was confronted with daily, it is inconceivable that his memory was so short. Since the beginning of 1944 he had been responsible for, or involved in, three Cabinet submissions in which the future of the two Acts figured prominently, and a few weeks before the reported conversation with Hartnett he had been a member of the sub-committee which recommended the repeal of the Acts. Moreover, Hartnett's general claim that his conversation with Chifley was responsible for the intention to repeal the Acts is plainly mistaken.

The letter of invitation, cast as it was in such a general way, can only be explained in terms of uncertainty about the prospect of persuading a company to undertake complete manufacture. There is no record of the deliberations of the sub-committee, but it would appear that members were convinced that the imposition of conditions would appreciably reduce the chance of receiving a meaningful offer. While the degree of genuine uncertainty that existed should not be underestimated, there was a good deal of evidence available to indicate that at least Ford and General Motors-Holden's were anxious to initiate complete manufacture. Since the Tariff Board enquiry of the late 'thirties, the Ford Company had indicated consistently its willingness, under certain conditions, to upgrade its Australian operations. Similarly, General Motors-Holden's through Hartnett had indicated throughout 1944 the firm's ambition to manufacture an Australian car. Both firms strenuously opposed the *Motor Vehicles Agreement Act* which was *prima facie* evidence of their post-war intentions. Indeed, because of the Agreement Act General Motors-Holden's was prepared to offer up to forty per cent Australian equity in any post-war expansion.[9] To be sure, the attitude of the Australian subsidiaries did not necessarily reflect views of the overseas parents. But it does not appear as though the Secondary Industries Commission provided the Cabinet sub-committee with a balanced assessment. By announcing its intention to repeal the two Acts before negotiations had commenced, and by making plain that minor conditions only would be imposed, the Government declared itself as a supplicant.

General Motors-Holden's submitted their proposal on 5th January 1945. The promptness with which the Government's invitation was accepted was, however, more apparent than real. As noted, Jensen had been encouraging Hartnett since the beginning of 1944 to prepare post-war plans for complete car manufacture. On 7th July Jensen wrote to Hartnett stressing the Government's determination to make the motor vehicle industry the corner-stone of post-war industrial expansion, and added:

> As to how that can be accomplished, I turn first to you for an answer because it seems to me reasonable that your company, with its heavy investments in Australia, with full knowledge of the motor car trade and with its own technique, would wish to capitalise upon this desire and enter the field of motor car production. . . .
> I am well aware that it would be asking too much for detailed plans . . . but frankly the Secondary Industries Commission would appreciate from you a positive statement as to whether or not your Company is interested in the manufacture of the complete motor car in Australia as an early post-war venture. . . . An answer to this problem will assuredly assist us in designing a post-war plan for the Commonwealth Government in terms of the Commission's charter.

There is no evidence of a similar letter to the Ford Motor Company or other potential manufacturers. Hartnett was not slow to take the point. By his own account he plunged into preparation of a case for submission to the General Motors Corporation. The case was presented in the United

[9] P. L. Swan, "General Motors-Holden's and the Australian Automobile Industry in Economic Perspective", unpublished Ph.D. thesis (Monash University 1972), pp. 421, 429.

States on 20th September, a fortnight before the Government's formal invitation was issued.[1]

The General Motors-Holden's proposal appeared reasonable in all respects and was closely attuned to the informal advice that had been given by the Secondary Industries Commission. The intention was, by about 1947, to produce 20,000 units a year of a medium sized and priced 18 h.p. sedan, and related utility vehicle, of specifically Australian design. The Australian-manufactured component was estimated to be ninety per cent by value (ninety-five per cent by weight). Metal fabrication would be concentrated at Woodville, South Australia, and the production of mechanical parts at Fishermen's Bend, Victoria, thus conforming tolerably to the Government's decentralisation policy. Total capital cost of the expansion was estimated at £2,500,000; apart from a reference to the use of retained profits, the method of finance was obscure. Undertakings sought by the company were fairly modest. The Government was asked to give an assurance that it would not engage in manufacture itself, and that the existing restrictive legislation would be repealed as had been promised.[2] The company asked that all manufacturing proposals be treated on the same basis, that it be given (i) notice of any tariff changes affecting motor vehicles, (ii) the offer of first refusal to purchase or lease government-owned plant and equipment currently used by General Motors-Holden's, (iii) the right to purchase on favourable terms other equipment to be sold by the Government, (iv) the authority to import, free of duty and sales tax, equipment unobtainable in Australia, (v) priority allocation of foreign exchange for necessary imports and for the overseas travel of engineering and other personnel, and (vi) assistance for freight equalisation. Finally, the company sought relief from undistributed profits tax on the grounds that portion of the expansion would be financed from undistributed profits.[3]

The Government's reaction was at best ill-considered. The normal procedure would have been to wait for other proposals (it was known that a submission by the Ford Motor Company was in the pipeline) and to consider all of them, or at least those of the major companies, simultaneously. This would have had the obvious advantage of enabling the Government to negotiate on such key issues as the range and suitability of units, the defence significance of plans, the scale and location of production, and foreign ownership and control. But no deadline had been set for the receipt of submissions, and Jensen apparently persuaded the Prime Minister that for the sake of post-war employment no time should be lost in accepting the General Motors-Holden's proposal. All the substantive points were accepted on 3rd February,[4] less than a month after Hartnett's offer was received and before any other potential manufacturer's case had

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[1] *Big Wheels and Little Wheels,* Ch. 24, esp. p. 185.

[2] Repealed by Act No. 1 of 1945.

[3] L. J. Hartnett to chairman, Secondary Industries Commission, 5 Jan 1945.

[4] Prime Minister to Hartnett, 3 Feb 1945. Only two of Hartnett's requests were not accepted: the advance warning of tariff changes affecting the motor vehicle industry, and the remission of undistributed profits tax. These were not regarded by General Motors-Holden's as crucial.

been heard. Moreover, the Government accepted a General Motors-Holden's stipulation that all firms submitting plans be treated on a uniform basis. This had the effect of tying all potential manufacturers to the General Motors-Holden's terms, or of requiring an extension to General Motors-Holden's of any additional concessions granted in any subsequent agreement. General Motors-Holden's had not only been allowed to deliver a pre-emptive strike at the post-war automobile market, but had succeeded in having its own terms accepted as Government policy.

While not part of the formal agreement, the Government also assisted General Motors-Holden's to finance the expansion. The General Motors Corporation refused to invest additional capital in its Australian subsidiary,[5] but the Commonwealth Bank agreed to an overdraft limit of £1,500,000 to supplement the firm's accumulation of retained earnings. Subsequently the Bank of New South Wales and the Bank of Adelaide provided additional finance, each with an overdraft limit of £500,000.

On 29th March the Ford Motor Company of Australia submitted in considerable detail its proposal which asked for many more concessions than General Motors-Holden's but offered more in return. The Ford scheme appears to have taken the Secondary Industries Commission by surprise. The precipitate acceptance of the General Motors-Holden's offer was based in part on the supposition that the American-owned company was much the stronger of the two and that the Ford Company would not be able to match its competitor. A technical assessment in 1944 by the Secondary Industries Commission pointed out that the Ford Motor Company of Canada was heavily dependent on its Australian subsidiary for the efficient operation of its factory capacity, and that the establishment of complete manufacture in Australia would have serious repercussions in Canada. By contrast, General Motors-Holden's expansion would hardly be noticed in Detroit. The Ford proposal did reflect the difficulties that would be experienced in Canada, but it was clear that an effort had been made to comply with what the company believed were firm policy guidelines—Australian equity participation, and the development of manufacturing capacity of defence significance. An inter-departmental committee[6] of enquiry was appointed without delay to examine the Ford Company's scheme, as well as the proposals subsequently submitted by Nuffield (Australia), Chrysler-Dodge Distributors, and Rootes Ltd. The General Motors-Holden's scheme was added to the agenda but, as agreement had already been reached on it, this was academic.

The Ford Motor Company envisaged a five-year development plan at the end of which 25,000 units would be produced annually substantially of Australian components. Total output was to comprise 20,000 cars and related utilities of 30 h.p. V-8 type, and 5,000 commercial trucks. Smaller cars and a range of trucks would continue to be imported to make up a

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[5] Hartnett, *Big Wheels and Little Wheels*, pp. 189-90.

[6] Membership: W. Scott (chairman), F. T. Merrett (Secondary Industries Commission), H. P. Breen, B. W. Hartnell (Secondary Industries Division, Post-War Reconstruction), a Treasury official (P. W. Nette), a Customs official (L. Crawley), and a Taxation official (P. McGovern).

full range of vehicles. As the Ford locally-made car was to be much larger than the General Motors-Holden's vehicle, it did not comply as well with the Government's objective of reducing local selling prices and in other ways was not as well adapted to average Australian conditions. Further, the Ford Company proposed building up Australian content over a period of years as opposed to the General Motors-Holden's one-step plan. But the Ford intention to manufacture in Australia a medium-sized truck, the equipment for which could be adapted for production of army vehicles, had considerable attraction from the viewpoint of national defence. Moreover, Ford offered Australian equity participation of between forty and fifty per cent, partly in response to what the company believed to be a firm policy guideline and partly because Ford Australia and its Canadian parent were not in as strong a position financially as General Motors-Holden's or its parent.

Many of the concessions sought by Ford had already been offered to General Motors-Holden's and created no difficulties: the right to import capital equipment free of duty, priority in the allocation of foreign exchange, and a higher than normal rate of depreciation on plant and equipment. But others went much further. First and most contentious, Ford requested a capital gift from the Government of about £850,000 so as to limit its overall capitalisation to £7,200,000, the maximum judged by the company to offer a reasonable return on shareholders' funds. Second, the company sought a range of concessions intended to increase sales volume: an increase in the tariff on unassembled chassis, the continuation of import control of all chassis imports irrespective of country of origin, complete or partial exemption from sales tax on locally manufactured vehicles, and preferential treatment in the placing of orders for motor vehicles by government departments. Third, it sought exemption from Commonwealth price control (and similar controls) in connection with the company's activities.

The inter-departmental committee was impressed with many aspects of the proposal and embarked on a detailed examination. But its hands were tied from the outset by acceptance of the General Motors-Holden's offer and the equal treatment clause. To be sure, the Government would have found it very difficult to make a capital gift to a company over which it did not have ultimate control, while freedom from price control could not have been sanctioned. The committee was anxious to encourage the Ford Motor Company as far as possible because of the prospect of a locally-made truck, Australian equity participation, and as insurance against default by General Motors-Holden's. Alternative means of assistance could no doubt have been devised, but ultimately the scheme foundered on the prior commitment to General Motors-Holden's; extension to both companies (and possibly others) of the assistance sought by Ford was judged to be too expensive in view of the fact that the General Motors-Holden's scheme, on its own, involved no direct financial obligation. In November 1945 the company was advised that the Government was unable to agree

to most of the concessions that had been sought.[7] At the same time the Prime Minister outlined what was described as a counter proposal which offered the company concessions along the lines of the General Motors-Holden's undertaking on condition that Ford initiate the manufacture of car, utility and truck chassis on the basis of a plan which would increase progressively the Australian content from 22½ per cent in the first year to 85 per cent at the end of five years. Involving as it did motor vehicle chassis only, the counter proposal was much less ambitious than Ford's original scheme but was judged to be within the company's financial capability without requiring extensive Government support. Discussions with the Ford Motor Company continued on the basis of the counter proposal, but it was 1948 before the company had recast its own plans sufficiently, and had overcome shortages of materials and equipment, to announce its firm intention of proceeding with a four-stage programme of lifting the Australian content of its vehicles.

The proposals submitted by Nuffield, Chrysler and Rootes were in general terms only and little serious consideration was given them by the inter-departmental committee. Nuffield envisaged the erection of plant for the assembly of parts imported from England and eventually the manufacture of chassis in Australia, but the timing of this development was left open. The Chrysler plan was similar in outline to the Ford scheme, and involved the assembly of 15,000 passenger vehicles in the Chrysler, Dodge, Plymouth and De Soto class (all about 30 h.p.), and 5,000 trucks, to be achieved over a three-year period. Some parts were to be manufactured locally but the programme for increasing Australian content was not specified. Chrysler had not worked out its plan in detail and was not able to give a clear undertaking. The most tentative plan of all was by Rootes which intended to concentrate on small and medium-sized cars, and assembly of trucks; but as intended maximum production was 5,000 small cars, 2,000 medium cars, and 2,000 trucks the scheme bore the stamp of economic inefficiency.

In the development of motor vehicle policy, the dominant consideration was the creation of employment opportunities in the engineering and metal trades after the war. These were branches of industry which had expanded rapidly during the war, and which threatened after the war one of the largest percentage contractions. The Secondary Industries Commission was convinced, fairly enough, that wartime experience in the production of heavy artillery, tanks, torpedoes, machine tools, aircraft and the like had demonstrated the country's technological capacity to embark on integrated motor vehicle manufacture. The commission was also convinced, again with reason, that the large overseas firms who had handled some of the largest and most difficult wartime contracts and who had ready access to the most advanced technology were in the strongest position to initiate the Government's plan. But the crucial decisions lacked professionalism, and the way they were made illustrated the danger of

[7] Full Cabinet Agendum 588D; meeting 26 Oct 1945. Prime Minister to H. C. French, General Manager of the Ford Motor Co. of Australia, 28 Nov 1945.

relying so heavily on the advice of technical experts. The two vital steps were the issue of the invitation to manufacturers in very general terms, and acceptance of the General Motors-Holden's offer without a detailed investigation and without offering an opportunity to other firms to have their plans considered at the same time and on the same basis. The first was taken without reconciliation between the Labor Party's antipathy towards monopoly and the well-grounded economic judgment that for the foreseeable future the market was only large enough for one manufacturer to produce efficiently. The second surrendered the right to attempt to improve the General Motors-Holden's terms by negotiation on the basis of competing offers. There is no simple explanation of why such important decisions were taken without due process. As noted earlier, uncertainty about the intentions of the manufacturers, a desire to get on with the job, and the influence of Jensen on Chifley played their part. In a broader context, however, the key element was probably the narrow technical preoccupation of the Secondary Industries Commission derived from the Munitions background of most of its members. Relations between General Motors-Holden's and Munitions had been good, and it is clear that Jensen at least had made up his mind that on the basis of technical capacity General Motors-Holden's was the firm for the job.[8] This judgment could not be disputed. All the evidence indicated that the company was in the best position to make a success of motor vehicle manufacture: it had the largest share of the market before the war, it was in the strongest financial position, it had the best access to advanced technical knowledge, and through L. J. Hartnett it had demonstrated an interest in and capacity for innovation towards the development of a passenger car suitable for local market conditions. But the wider policy implications were ignored as had been the pattern in the Department of Munitions. The choice of General Motors-Holden's to make the inside running was correct; the racing regulations were not.

SHIPBUILDING, TEXTILES AND OPTICAL INSTRUMENTS

No other manufacturing industry received the same attention as the motor vehicle industry, and the great majority made the transition from war to peace without direct government intenvention. But important decisions were taken affecting the shipbuilding, textiles and optical instrument industries.

Consideration of the post-war future of the shipbuilding industry was determined almost entirely by defence considerations. The inter-departmental Committee on Post-War Shipping and Shipbuilding formed in January 1944 accepted from the outset the desirability of retaining a substantial proportion of wartime capacity irrespective of the cost disadvantage facing Australian yards. The evident desire was to avoid a repetition of the shipping crisis of 1942, and to secure a greater degree of

[8] Relations with the Ford Motor Company were not so happy. Broadly, there had been difficulties between Munitions and Ford since the termination of the tank programme. Ford had been given a loan to help construct a tank annexe, and the dispute centred on repayment of the loan following cancellation of the programme.

self-sufficiency in the construction of ships for use in and around Australian waters. The committee also accepted the need for the retention of substantial capacity for repair work. Even the Department of Post-War Reconstruction, often an opponent of non-economic reasoning, accepted the defence argument without serious qualification.

Discussion quickly narrowed, therefore, to three matters: the volume of construction which would be consistent with minimum defence needs, the types of ships to be built, and the form of assistance to be given the industry. The initial proposal of the Australian Shipbuilding Board was ambitious: an expansion in the size of the Australian-registered merchant fleet over a ten-year period from a pre-war figure of about 450,000 deadweight tons to 750,000 deadweight tons. This indicated a rate of construction of 70,000 tons a year, about one-half for replacement and the building of training ships, and the remaining half for net expansion. The proposal was based on two assumptions: the post-war programme should include vessels in the large overseas class, and the growth of traffic would support expansion of the coastal fleet. These assumptions were found wanting by the inter-departmental committee. The indications were that after an initial period of shortage, overseas class vessels would be in heavy oversupply in the post-war period. Further, there appeared to be no need for expansion in the size of the coastal fleet. Thus, the committee settled on a programme which was based on the demand for replacement of existing coastal vessels. It recommended that the wartime rate of construction be reduced over a three-year period to a minimum of 32,000 tons annually (exclusive of naval construction), a figure which it expected would enable shipyards to continue to operate economically and would provide for the regular replacement of the fleet and also a reduction in the average age of ships. The committee did not rule out the possibility of some increase in the size of the fleet, but this was left for future consideration by the Department of Supply and Shipping when more evidence was available about the trend of coastal traffic after the war.

As replacement of the coastal fleet was to be reserved for Australian shipyards, the committee reached the conclusion that the payment of bounties to the extent of equalising overseas and local costs of construction was the appropriate method of assisting the industry. This method had the advantage of removing upward pressure on freight rates originating from higher Australian costs of construction.[9] While the primary intention was to improve shipping standards along the coast, the committee's recommendation that no ship be licensed for the interstate trade after it reached twenty-five years of age was an additional element of protection for shipyards in so far as greater continuity of replacement orders was assured.[1]

The committee's report was referred to a cabinet sub-committee,[2] but

[9] In 1944 Australian construction costs were estimated at about £60 per ton compared with £30 to £40 per ton in the United Kingdom.

[1] Report of the Inter-Departmental Committee on Post-War Policy for Shipping and Shipbuilding, Oct 1944, War Cabinet Agendum 76/1945.

[2] War Cabinet Minute, 27 Feb 1945.

in the event few changes of substance were made. The Full Cabinet decided in August 1945 to maintain a merchant ship construction programme in peacetime of 32,000 gross tons annually for "defence purposes and, because of the widening Australian industrial structure, [the maintenance of] the level of employment and the continued utilisation of resources built up in wartime". Freight and charter rates for interstate traffic were to be controlled, and the purchase price of Australian-built ships subsidised (although no specific rate of subsidy was nominated at this stage). Registration of interstate ships was to be limited to those under twenty-five years of age, subject to the right of the Minister to approve exceptions. For the control of the peacetime programme, the Australian Shipbuilding Board was to be reconstituted by statute. In addition, the Cabinet authorised in principle a naval production programme as an "essential accompaniment to the planned merchant programme"; but a decision on the scale of naval construction was deferred pending consideration of the size of the Australian Military Forces in peacetime.[3] These were long-range decisions which were intended to assure the industry that it would not be allowed to disintegrate as after the war of 1914-18. The industry's immediate post-war future was assured by completion of the wartime programme.

There were several pressing reasons for early consideration of the post-war future of the textiles industry. First, peacetime employment in the industry was notoriously unstable, and the resumption of import competition after the war could threaten a large number of jobs (particularly women's jobs). Second, Australia remained heavily dependent on imports of cotton yarn and piece-goods, and there was a case—at least on defence grounds—for a substantial lift in the proportion of the cotton-goods market supplied from local production. Third, wartime developments in the manufacture and use of artificial fibres revealed more clearly than before the threat to the future of the wool industry. Thus, there was a strong case for increased government support for research in wool technology. Fourth, domestic manufacture of synthetic fabric was a negligible proportion of total consumption, and a decision was required as to whether this branch of the industry was to be encouraged.

The original intention appears to have been to conduct a comprehensive examination of the requirements of the industry. A Textiles Advisory Panel was appointed in November 1943 (the first of the Secondary Industry Commission's Panels to be appointed) with a general brief to consider the needs of the woollen, cotton, knitting and synthetic branches of the industry, and to recommend as a matter of urgency the provision of research facilities including the establishment of a textiles college. A number of specific recommendations followed, and a few general papers were prepared by the Secondary Industries Commission. But the industry was not subjected to systematic examination, and the only general policy that emerged was that the industry should respond to the post-war situa-

[3] Full Cabinet Agendum 900; meeting 28 Aug 1945.

tion in its own way without the prospect of additional tariff protection. The rationale appears to have been that the industry was already highly protected, and that on economic grounds and because of current trade negotiations an increase in the tariff was not justified; if employment difficulties arose these would be dealt with through the budget or the National Works Council. In short, the Government preferred to restrict its attention to a few matters of immediate concern.

The first such matter was the strengthening of training and research in textiles technology, with particular reference to the wool industry. Following a report by the Textiles Advisory Panel early in 1944, the Government accepted a recommendation to equip the Higher Textile Training College at Geelong, Victoria, with a "balanced plant", and to establish training schools for operatives in Sydney and Melbourne. On completion of the Reconstruction Training Scheme,[4] buildings and plant were to be taken over by the respective State governments. A further report by the panel on wool research and promotion led to a comprehensive scheme for an increase in the allocation of funds for these purposes.[5] In November 1944 the Government announced its proposal to increase the tax on wool from 6d. to 2s. per bale for research and promotion, and to match the amount so collected with a government payment into a Wool Research Trust Fund. Not less than one-half of the proceeds of the bale tax was to be paid into the trust fund by the Australian Wool Board so that research (mainly by the Council for Scientific and Industrial Research) would receive not less than three-quarters of total funding; the remainder would be available for promotion by the Wool Board. These changes were incorporated in the *Wool Use Promotion Act* of 1945 which in addition reconstituted the Australian Wool Board as a corporate body and established the Wool Consultative Council to advise the Government on all matters affecting the wool industry.

The second matter sprang from a proposal by Burlington Mills (Australia) Limited to develop rayon and nylon fabric manufacture using the munitions factory at Rutherford near Maitland, New South Wales. The proposal had a number of attractive features. No artificial fibre was spun in Australia, and local weaving represented a nominal three per cent of total consumption of 83,000,000 yards in 1939-40. There existed therefore considerable scope for import saving, although initial planned capacity was only for 3,000,000 yards. The company estimated that it would be able to produce at a price which would be more than competitive with imports without the imposition of a protective tariff. Existing customs duties were low and for revenue purposes only. Establishment at Rutherford would make use of a cartridge-filling factory no longer needed for war purposes, and would assist decentralisation and provide women with work in an area deficient in female employment opportunities. Initial capitalisation would be a modest £300,000, with one-half the equity available for Australian subscription and the remainder for Ameri-

[4] Part of the general scheme described earlier, Ch. 23.
[5] Full Cabinet Agendum 741; meeting 25 Sep 1944.

can interests. Finally, the promotion would secure access to American equipment and technical knowledge.

On the debit side, the Capital Issues Advisory Committee pointed out that the American interests would have effective control as their fifty per cent equity would be held in a block, and it appeared that a high price was to be paid for goodwill. The committee argued that the Government should press for no less than sixty per cent local equity, and should canvass Australian-owned companies for alternative proposals. Although not part of the committee's report, the point might have been made that the company's cost estimates had not been independently assessed and that there appeared to be good reason to suppose that once the project had been launched an approach to the Tariff Board would be made for protection on infant industry grounds.

These and other less important reservations were set aside by the Cabinet sub-committee on Secondary Industries, and the Full Cabinet gave the venture its unqualified blessing in May 1944.[6] The agreement between the Government and the company specified that the project should commence by the end of 1944; the Rutherford factory was to be made available on lease for an initial period of five years with an option to the company to continue the lease for another five-year period or purchase at an agreed price. The dominant reasons for the swift acceptance of the Burlington Mills offer were (i) the prospect of providing about 6,500 women with employment in a country district, (ii) the opportunity for making use of a munitions factory which had become redundant, and (iii) the addition that would be made to the range of manufacturing industry. Concern about the ultimate economic efficiency of small-scale rayon weaving and about the appropriate percentage of Australian equity was, in the context of 1944, far less important.

The work of the Cabinet sub-committee on Secondary Industries and the Secondary Industries Commission touched on a wide range of other industries and sub-industries in piecemeal fashion. Frequently the decision was that no action was required, or that the Government should not or could not become involved. When Government assistance was thought to be necessary, this was normally restricted to the immediate problem of peacetime conversion; acceptance of a long-term commitment was rare.

Optical munitions was one of the first industries to be refused assistance. The development of optical instrument manufacture was one of the outstanding technical achievements of the war.[7] With no previous manufacturing experience and with very little technical assistance from abroad, a high degree of self-sufficiency had been achieved by 1942-43 in the production of optical glass, lenses, prisms, searchlight mirrors and associated instrumentation. By the end of 1943 the primary military need for instruments had been met, and in December 1943 the Secondary Industries Commission appointed an Optical Industry Advisory Panel to explore

[6] Full Cabinet Agendum 618A; meeting 10 May 1944.
[7] Mellor, *The Role of Science and Industry*, Ch. 12.

post-war possibilities for the industry. The panel reported in April 1945 that the industry could not continue on the basis of defence orders, and that if a sufficient number of skilled operatives was to be retained the industry would have to develop commercial products. The panel believed that, while the commercial risk was high, the development of a number of commercial prototypes was justified. But the Secondary Industries Commission had made up its mind that an indigenous optical instrument industry would not be economic, and refused to sponsor a modest request for £2,500 for the development and testing of commercial prototypes. For the time being this put an end to the hopes of a commercial optical instrument industry. The Secondary Industries Commission might well have been correct in its economic judgment, but its refusal to support small-scale experimental work and to gather more evidence to test its judgment was more difficult to defend.

Some information was also collected on the problems facing manufacturers of electric motors, plywood, furniture, refrigerators, radio and signal equipment, and stoves and ovens. In each case the commission was unable or unwilling to offer assistance. The main problem facing manufacturers of plywood and furniture was shortage of labour and materials. A suggestion by the Plywood Advisory Panel in 1947 that the Government and private industry should jointly develop the Bulolo-Wau area of New Guinea for the production of plywood was rejected. A perennial problem facing the furniture industry—the manufacture of shoddy lines—was outside the commission's responsibility and was referred to the Standards Association of Australia. In the case of electric motors, refrigerators, radio and signal equipment, and stoves and ovens, the commission found that there were no serious conversion problems facing manufacturers.

In a number of other areas the commission played the role of passive midwife, rarely influencing the course of events. It gave its blessing to the conversion of synthetic ammonia plants at Albion and Ballarat, Victoria, Mulwala and Villawood, New South Wales, for the production of nitrogenous fertiliser. However, the initiative came from the Directorate of Explosives Supply in Munitions and Imperial Chemical Industries of Australia and New Zealand Ltd. Through the inter-departmental committee on motor vehicles, assistance was given to the proposal by International Harvester Co. Pty Ltd for an increase in the Australian content of its tractors. The commission played a part in sponsoring in 1944 the manufacture of bicycle fittings and spare parts by British Tube Mills (Australia) Pty Ltd, a proportion of the components to be made by the small arms factory at Lithgow. And it helped provide factory space for the development of newsprint manufacture in Tasmania. In short, the Government's involvement in the detailed problems of transition facing secondary industries was limited and highly selective.

DISPOSAL OF MUNITION FACTORIES

Public discussion in 1944 of the post-war future of government munitions factories divided along traditional political lines. A number

of Ministers made no secret of their ambition to retain control of all factories so as to extend the range of public enterprise. The Minister for Munitions appeared to be stating settled Government policy when he declared in February that:

> If Commonwealth establishments are to be maintained in a state of efficiency and operated along economical and profitable lines, it is essential that the Government should be permitted to enter into industry on a strictly commercial basis in supplying civilian needs.[8]

The Prime Minister immediately supported Makin in a statement which changed the emphasis but not the substance:

> . . . it appears to me that the vast capital investment the nation has made in the complete equipment of industries for war should not be sacrificed but should serve as the foundation on which any similar situations could be more completely dealt with.[9]

Business interests could not fail to read such statements as a prescription for socialism, and for the development of public manufacturing in direct competition with private industry.

However, no formal decision was taken. A Cabinet submission by the Department of Post-War Reconstruction had urged in November 1943 the retention of all government factories, their separation from departmental control and the Public Service Board, and the creation of a registered company wholly owned by the Commonwealth which would operate the factories on a commercial basis.[1] But there were legal doubts as to whether the Commonwealth had the constitutional authority to operate commercially in peacetime in this way, and the proposal was deferred pending the outcome of the "fourteen powers" referendum of August 1944 which included a power to enable the Commonwealth to make laws with respect to "the production and distribution of goods".

Before the referendum, however, a less doctrinaire approach had emerged under the influence of the Secondary Industries Commission. The commission had reached the conclusion that the Government would not need to retain all factories for defence purposes and argued that a proportion could be leased or sold to private industry without reduction of the country's future defence capability. It also accepted the general view that post-war manufacturing capacity would exceed demand for industrial goods, and counselled against heavy government involvement in non-defence manufacturing; these views were reinforced by the commission's own preference for private enterprise. As described earlier, the lease of the Rutherford factory in May was the first strand of the new approach. Basic principles were defined by the Prime Minister in a detailed public statement on 1st August 1944 which divided factories into three groups: (1) those suitable only for the production of munitions—to be retained by the Government for future defence needs; (2) those not producing munitions directly but representing the nucleus of general engineering

[8] *Digest of Decisions and Announcements*, No. 74, p. 45.
[9] *Digest of Decisions and Announcements*, No. 74, pp. 45-6.
[1] Full Cabinet Agendum 564.

plant on which wartime munitions production would depend—to be considered for retention by the Government; (3) those capable of being used for the production of civilian goods—to be either retained by the Government, leased or sold to private interests, or operated jointly by mixed public and private enterprise along the lines of Amalgamated Wireless (Australasia) Ltd depending on the merits of the particular case.[2] In short, policy would be kept flexible except for nucleus defence establishments classified Group One. Further, Curtin ruled out direct competition between public and private manufacturing. If the Government decided to enter commercial manufacturing, the intention would be to "round out the Australian industrial structure by filling in those gaps which are known to exist, and thereby making Australia more capable of meeting her requirements in manufactured goods".

Coming as it did shortly before the referendum, the statement had an overt political purpose. But with the rejection of constitutional alteration the three-tier classification of factories remained the basis of policy. The Secondary Industries Commission was left free to advise on the future of those in the second and third groups; in the bulk of cases the commission's advice was accepted in favour of lease or sale to private enterprise. After the referendum the Cabinet appears to have lost interest in the possibility of the creation of a government manufacturing corporation, and there was little subsequent discussion of the retention of key engineering plant or joint public-private enterprise. The Department of Post-War Reconstruction reintroduced the question of separating Group One factories from departmental and Public Service Board control, but this foundered on legal problems and bureaucratic jealousy.[3] In 1945 the emphasis shifted to the disposal of Groups Two and Three, non-metropolitan factories, in such a way as to encourage industrial decentralisation.

Indeed, policy moved decisively during 1945 in favour of the lease (or sale) of the bulk of factory space to private industry. The collapse of Germany encouraged belief in a new era of stable international relations, and the political mood was now against the preservation of a large munitions establishment under government control. This mood was reinforced by practical considerations. A large munitions industry would be expensive, and the huge stockpiles of standard items were expected to meet basic peacetime needs for many years. Further, the Secondary Industries Commission argued, plausibly, that war-created capacity would be utilised more efficiently and its military potential maintained if turned over to private industry; capacity for the creation of employment was also expected to be enhanced. Thus, when the Defence Committee as an interim arrangement recommended early in 1946 the retention of forty-five per cent of productive capacity, the Cabinet sub-committee on Secondary Industries decided instead to limit Group One classification to the bare minimum.[4] The factories in the category were:

[2] *Digest of Decisions and Announcements*, No. 85, pp. 4-8.
[3] Full Cabinet Agenda 564A, 564B and 564C; meetings 20 Mar, 20 Nov and 17 Dec 1945.
[4] Cabinet sub-committee on Secondary Industries, Decision 40 of 20 Mar 1946 on Agendum 15/1946.

Ammunition:	Footscray, Victoria
Chemical warfare:	Maribyrnong, Victoria
Explosives and filling.	Maribyrnong, Victoria; Mulwala, New South Wales
Ordnance:	Maribyrnong, Bendigo, Echuca, Victoria
Small arms:	Lithgow, New South Wales

With the concentration of parent factories at Footscray, Maribyrnong and Lithgow, this was in substance a return to 1939. The sub-committee's only concession to the Defence Committee was the proposal to retain forty-five per cent of special purpose machinery and the same proportion of general purpose equipment unless the development of manufacturing industry was likely to be affected adversely. But in the absence of factory capacity to utilise the equipment, this concession was of minor defence significance even in the short-term.

The guiding principle in the disposal of factories was that the terms of the lease or sale should be sufficiently flexible to encourage industrial decentralisation. This meant simply that the Government was prepared to reduce the sale price or rental sufficiently to ensure continuity of industrial activity in country areas and in the less industrialised States; it was also willing to give some regional preference in the disposal of machine tools and other equipment. In Sydney, Melbourne and Adelaide, the standard terms of a lease were based on capitalisation of usable factory space at £1 per square foot, with rental determined by applying six per cent to the capital value estimated in this way. Outside these three cities terms varied appreciably, but the rental was normally three or four per cent with possibly some reduction in capitalisation. While the Government claimed this as a major step towards non-metropolitan industrial growth, the concessions were no more than acceptance of the lower level of demand for factory space outside the main cities. Even at the reduced rentals and in the context of a serious shortage of space, disposal of a number of factories was slow—particularly those in more remote areas such as Mudgee and Parkes, New South Wales, and in such localities as Derwent Park on the outskirts of Hobart, a long way from principal markets.

There was a sense of resignation in further efforts to promote decentralisation. It was generally accepted that a serious attack on the problem depended on detailed Commonwealth-State co-operation and the expenditure of large sums of money, but the Commonwealth was not prepared to make a large financial commitment and the States were more interested in competing between themselves for new industries. By the end of the war the Government had encouraged the States to profess an interest in decentralisation, and most had agreed to offer freight, water and power concessions. This exercise in tokenism was matched by the Commonwealth which established a Decentralisation Section within the Department of Post-War Reconstruction's Division of Industrial Development.[5] At the Premiers' Conference in August 1945 the States resolved to encourage decentralisation to the full extent of their resources, while the Common-

[5] Full Cabinet rejected in Jul 1945 a proposal to establish a fully-fledged Commonwealth authority to administer decentralisation policy, preferring a less conspicuous intrusion into the field of the States and one without definite financial obligation. Full Cabinet Agendum 892.

wealth undertook to collaborate with the States in all matters of industrial policy, investigate with the States the prospects for developing manufacturing industries in selected areas, and to consider the provision of financial assistance when a project was of national interest and beyond the resources of the State concerned.[6] This left most of the initiative with the States. In the post-war scramble between the States for new industries, the insubstantial character of decentralisation policy was quickly exposed. To a limited extent the Commonwealth encouraged the competition between the more and the less industrialised States, for one of its important although unpublicised objectives was, for defence reasons, to reduce the industrial dominance of Sydney and Melbourne. A shift away from Sydney or Melbourne was discreetly encouraged, by for example negotiations between the Secondary Industries Commission and Philips Electrical Industries of Australia Pty Ltd for the lease of the Hendon ammunition factory which involved a move for the company from Sydney to Adelaide. In the same vein three factory complexes were sold to State governments so that the States involved could develop the capacity in their own way. The three were the Rocklea ammunition factory, Queensland, Welshpool ammunition factory, Western Australia, and the Derwent Park ammunition and explosives factory, Tasmania. In the case of the large group of factories at St Mary's, New South Wales, the Government decided to develop the industrial estate itself; a proportion of the 900 buildings was reserved for Commonwealth use but by 1949 the remainder was leased to eighty-five private firms. Broadly, however, the Government was not prepared to intervene decisively in the geographical distribution of industrial capacity between or within States.

The remaining disposal principles may be summarised briefly. Leasehold rather than outright sale was the preferred method of transfer of factories to private industry, with an option available to the lessor to purchase on the expiry of the lease. Leasehold enabled the Government to retain some control of the development of the factory site, including resumption in the event of another war. For practical reasons, however, machine tools and other equipment not required for government establishments or the Commonwealth Reconstruction Training Scheme were sold. So long as capacity was fully occupied and offered employment to former munitions workers, only mild influence was exercised over the nature of the firms accepted as tenants. In most cases the locality and former use of the factories dictated post-war utilisation. Thus, the small arms feeder factories in the central west of New South Wales were occupied predominantly by textile and clothing manufacturers; the explosives components of the factories at Villawood and St Mary's tended to be leased to chemical-based firms, while ordnance plant went to metals and automotive manufacturers, for example the lease of the Armoured Fighting Vehicles Directorate factory at Fishermen's Bend, Victoria, for the assembly of Hillman cars and trucks by Rootes Limited. Munitions annexes were usually sold to their wartime

[6] *Proceedings of the Conference of Commonwealth and State Ministers*, Canberra, 20 to 23 Aug 1945, pp. 69-72.

operators. When the Secondary Industries Commission used its discretion, it was in the direction of encouraging an extension of the range of manufacturing activity, and it was especially anxious to induce overseas firms to commence operations in Australia. It merely echoed the tradition, therefore, of the country's industrial policy.

The peak of disposal activity was reached in 1946 and 1947, and by 1949—when the Secondary Industries Commission was wound up—the work had been completed. The total area of factory building space leased or sold was made up as follows:

Munitions factories	6,190,274	square	feet
Munitions annexes	576,982	„	„
Aircraft production factories . .	381,719	„	„
Dehydration factories	179,216	„	„
Grain alcohol distilleries . . .	240,183	„	„
Flax mills	60,774	„	„
Warehouses	570,700	„	„
	8,199,848	„	„

The total area comprised 80 factories which were transferred to 293 separate firms. The most complex task undertaken by the commission was the development of the St Mary's explosives and ammunition factory as an industrial estate which involved the transfer of 1,000,000 square feet of space to 85 private firms and the planning of a new satellite town west of Sydney. In a commercial sense the commission completed its task quickly and efficiently: the rapid transfer of buildings and equipment, usually on attractive terms, provided a useful impetus to early post-war industrial expansion. In terms of its charter this was all the Secondary Industries Commission was required to do.

CHAPTER 25

THE COLLAPSE OF THE WAR ECONOMY

PREPARING FOR THE TRANSITION

THERE was no lack of appreciation within the Department of Post-War Reconstruction and the Government generally about the importance, for the purpose of maintaining full employment, of the transition period from war to peace. Plainly, the war economy could not be disbanded overnight. The transfer of half a million men from the Services to civilian life was a task of major proportions. If employment opportunities were to be created at an appropriate rate and in the correct order of priorities, much of the wartime system of economic regulation would be required during the transition to reshape the structure of the economy for the peace. Just as the market offered inadequate incentives for the mobilisation of a war economy, it could not be relied upon during demobilisation without damaging side-effects.

The most prominent side-effect was likely to be rapid price inflation during the early post-war years. With a high level of deferred demand for consumption and investment goods, excessive bank liquidity, and the persistence of chronic shortages, reliance on the market would inevitably lead to tear-away inflation. Thus the White Paper on Full Employment, in its brief outline of transition problems, nominated price control (including control of rents and land values) as one of five key areas of control for retention in the post-war period. The control of prices, reinforced by consumer rationing, was needed to restrain inflation and also to prevent an inequitable distribution of scarce consumer goods, overcapitalisation of investment goods, and deterioration in the competitive position of Australian exports. Most of all it was needed to prevent a sudden fall in the price level and employment at the end of the transition phase. The other key controls were required either to support price control and employment stability or to help achieve special post-war objectives. The retention of trade and monetary controls was required to supplement price control, conserve essential supplies for domestic use, and to restrict the use of foreign exchange resources. Trade and monetary controls were the one key area clearly within the constitutional power of the Commonwealth and provision had already been made for the retention of these restrictions. In addition, the White Paper indicated the need for continued control of building materials to allow priority to be given to the construction of homes, hospitals, schools and factories. To support building materials control and monetary restrictions, and to limit the use of investible funds for non-essential purposes, capital issues control would also need to be retained. Finally, regulations would be required for some time after the war to permit the orderly winding up of wartime marketing arrangements for primary products.

While the need for the temporary retention of these controls was accepted widely within official circles and given adequate publicity, far

less attention was given to the host of other wartime controls. As early as September 1943 Production Executive had appointed an inter-departmental committee on the application and removal of controls, as an extension of War Organisation of Industry's co-ordinating function,[1] but the committee acted merely as a controls clearing house to enable proposals for the revocation or imposition of restrictions to be examined by other interested authorities. The initiative for any change lay with the administering authority, and the committee did not promote any examination of the controls network. Nor did it prepare any policy for the systematic removal of controls after the war.

No further action was taken until after victory in Europe and the simultaneous growth in the number of questions in Parliament about the removal of "obnoxious restrictions" on personal liberty. In answer to one of these questions Chifley, as Acting Prime Minister, was caught momentarily off guard and stated that a ministerial committee had been appointed to review wartime controls.[2] No such committee had in fact been established, but the slip produced a flurry of activity. Production Executive authorised the committee *ex post* early in June,[3] and requests were sent to all departments for an immediate review of all regulations and orders with a view to removal of those no longer required. This produced a first list of quite minor restrictions for removal, such as the regulation of advertising during Christmas, New Year and Easter, the control of gas producers and substitute fuels, and restrictions on the manufacture of baby carriages and repair of refrigerators.[4] But the ministerial committee did not meet, and no progress was made in preparing an integrated programme of controls relaxation. The initiative continued to rest with administering departments, the inter-departmental committee acting as secretariat.

The leisurely approach to "decontrol" was predicated on the assumption that the war in the Pacific would last well into 1946 and that no general relaxation could be permitted until the Japanese surrender was within sight. The dropping of the atomic bomb on Hiroshima on 6th August and the termination of hostilities on the 15th changed the mood in Canberra dramatically. There was now a rush led by Dedman to abandon controls as rapidly as possible and to revert (within limits enumerated by the White Paper) to a free market economy.

In the time available there was no possibility of preparing an integrated programme of relaxation and the Government had to rely on the machinery and policy fragments as they existed. An emergency departmental meeting was held on 15th August which brought together the threads for War Cabinet submission on the 17th. The threads consisted of (a) a list of 39 controls which departments had presented for immediate relaxation; (b) a further list of some 75 controls suitable for removal on the cessation of hostilities, but which had not yet been circulated for

[1] Production Executive Agendum 5/1942, Supplement 1; Decision 346, 15 Sep 1943.
[2] *Commonwealth Debates*, Vol. 182, p. 2049.
[3] Production Executive Decision 707, 7 Jun 1945.
[4] Production Executive Agendum 53/1945, Supplement 1, 31 Jul.

comment; and (c) a list of 40 regulations which were expected to be required for longer than six months after the end of the war. For the most part list (a) comprised relatively minor controls such as those relating to the use of transport facilities, the storage of primary products, daylight saving, holiday and travel leave regulations and other redundant wartime measures; but, more important for reconstruction, the list included the prohibition on new manufactures and a number of non-essential items. All these restrictions were to be removed within ten days. At the same time the War Cabinet removed most of the extensive powers of the Director-General of Manpower. The second list was to be circulated for immediate report by any interested department, while the third list was to be prepared for submission to a Premiers' Conference to be held within a few days.[5]

Subsequent decontrol policy continued, as before, on an *ad hoc* basis. There was some attempt to classify controls into broad categories. Apart from the "White Paper controls", those which related to the supply of and demand for scarce essential commodities were singled out for more detailed attention. Thus, rationing of clothing, meat and butter, and the control of rubber, motor vehicle tyres, and non-ferrous metals were restrictions recommended by the inter-departmental committee for gradual relaxation. This was the closest that the Government came to policy specification. Most of the remaining controls were abandoned rapidly and haphazardly. The inter-departmental committee was scrapped in mid-August and proposals for decontrol emanating from departments were handled by a small section within Post-War Reconstruction. Some departments, particularly Trade and Customs, and Transport, were inclined to resist the pressure for early relaxation because of the disruption to markets that would follow. But the tendency for bureaucrats to hang on to controls was much less pronounced than the Liberal Party and the press claimed. The desire to abandon government by regulation as far as possible was activated by the impossibility of effective enforcement. By 1945 most regulations were being evaded so widely—especially by the larger companies and wealthier groups—that relaxation was the only realistic option available. Further, public servants were not insensitive to the general public antipathy, and were anxious to redirect their energies into new and more rewarding avenues.

Thus, during September and October several hundred controls were revoked. Together with those removed since July 1945, this represented about half of those imposed during the war and still in force on V-E Day. The list included a large number of orders designed to control the production of clothing and footwear, simple household products such as cooking utensils, and electrical appliances. Commonwealth control of taxi cabs was removed, although the States continued these regulations in a modified form. Similarly, the zoning of milk, bread and ice deliveries was abandoned in Queensland and South Australia as from 1st December, but in the other four States the Commonwealth delayed revocation until 1st

[5] War Cabinet Minute 4353, 17 Aug 1945; Agendum 439/1945.

January 1946 to allow these States to pass their own legislation.[6] The States were also invited to submit their opinion on the Manufacture of Domestic Furniture Order which was designed, among other things, to prevent the manufacture of shoddy goods. As only three replies were received, Production Executive decided to revoke the order and leave the States to deal with this matter.[7] Other wartime measures which were abandoned included marine war risk insurance, holiday and annual leave regulations, restrictions on the transport of racehorses by rail, funeral vehicles control, and control of a long list of essential materials.[8]

This left about three hundred controls still in force at the end of October. A few of these were the "White Paper controls" and supporting regulations; the history of these will be discussed separately. Others fell into the category identified by the inter-departmental committee as those controls required to allocate scarce essential commodities and which could be relaxed only after the supply position had improved significantly. A third group was retained pending the completion of State legislation (for example, the zoning regulations). Finally, there was a large number of routine orders which were retained until certain formalities had been completed. For instance, the distribution of Lend-Lease goods was controlled until Australian-United States negotiations on Lend-Lease settlement were complete; and the Chinese seamen regulations remained in force until these men had been repatriated. The bulk of the controls of this kind disappeared at the end of 1945 or early in 1946. Indeed, most of the other controls were revoked during 1946 as supplies improved gradually. Certainly by the end of 1946, when the *National Security Act* lapsed, the elaborate wartime apparatus had been reduced to a shadow.

There were those who despaired of the rapid and unco-ordinated unwinding of the war economy, with all its makeshift features and lack of planning. To be sure, the disintegration of controls was far removed from the theoretical ideal. As was predicted, markets were disrupted; the distribution of scarce commodities was skewed in favour of the wealthy and powerful; severe pressure was placed on price and capital issues control, and on the remnants of consumer rationing. With hindsight, however, it seems unlikely that a more integrated and systematic approach to decontrol would have smoothed the transition materially. Given the widespread evasion of regulations by the end of the war, the administrative burden would have been intolerable; and as much disruption could have been caused by prolonging restrictions as was in fact experienced. In the event, there was a brutal logic in permitting the market to re-emerge at an early stage and in allowing supply to respond accordingly. Thus, by concentrating on a few key controls the Government probably arrived at a sensible *modus vivendi*, especially in view of uncertainty about the constitutional position and the fragility of Commonwealth-State co-operation.

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[6] Production Executive Agendum 107/1945, 26 Oct.
[7] Production Executive Agendum 88/1945, 25 Oct.
[8] Production Executive Agenda 53/1945, Supplements 3 and 4, 3 Sep and 26 Oct.

THE "WHITE PAPER CONTROLS"

The importance that was attached to the continuation of the control of prices, wages, capital issues and building materials was related directly to the full employment strategy and to the priority accorded the housing programme. As explained by Senator Keane at the conference of Commonwealth and State Ministers in August 1945:

> An inflationary movement immediately after the war would be followed, as it was after the last war, by a period of deflation. This would cause instability in the whole economic structure, and impose the greatest injustices upon returned soldiers. The experience after the last war must not be repeated, and it can be avoided only if the governments of Australia are determined to grapple with the problem of price control in the disturbed years of rehabilitation.[9]

Price control carried the implication that the wage pegging regulations would be continued in some form: the Government accepted from the outset that the two were inseparable.

Commonwealth authority over prices, wages and capital issues was derived, of course, from the *National Security Act*. As this legislation was itself derived from the Commonwealth's defence power, the Act was due to terminate on "a date to be fixed by proclamation, and no longer, but in any event not longer than six months after His Majesty ceased to be engaged in war". The words appeared simple, but there was considerable uncertainty about the meaning of the phrase "ceased to be engaged in war". Initially officials interpreted the phrase literally and assumed that the Act would cease to operate as from 15th February 1946 —six months after the Japanese surrender. This explained in part the haste to abandon routine regulations and to summon a Premiers' Conference. But on the basis of experience after the war of 1914-18 the phrase could also be interpreted to mean six months after the day on which a formal peace treaty was signed. Again on previous experience, this could take a number of years and leave the date of termination of National Security Regulations in considerable doubt. Further, depending on the attitude of the High Court, the defence power could be used to enable certain regulations to remain in force beyond the expiry date of the *National Security Act* if these were regarded as essential for the orderly transition from war to peace. The defence power had been used in this way to retain important elements of the *War Precautions Act* after the peace treaty with Germany came into force in January 1920.

The surrender of Japan was signed aboard the *Missouri* on 2nd September 1945 and this was the date on which hostilities between Japan and Australia formally ended. But this was merely the beginning of a protracted period of Allied occupation and political reconstruction of countries that had been held by Japan.[1] In this period Australia continued to be, legally, in a state of war. Peace negotiations were indeed much more

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[9] *Proceedings of the Conference of Commonwealth and State Ministers,* Canberra, 20 to 23 Aug 1945, p. 40.

[1] For problems after the surrender see Hasluck, *The Government and the People 1942-1945,* pp. 602-12.

prolonged than after the war of 1914-18 and the treaty was not signed until 8th September 1951 and came into force in April 1952.

For political reasons the Government could not allow the future of remaining National Security Regulations to be subject to continual uncertainty and speculation. After initial dithering it decided, in April 1946, to terminate the *National Security Act* by special legislation[2] as from 31st December 1946. At the same time the Prime Minister made it clear that action would be taken in legislative form before the end of 1946 to enable "anti-inflationary" controls to be retained for some time thereafter on the basis of the Commonwealth's defence power.[3]

However, the majority official view was that the "White Paper controls" would be required indefinitely in the post-war period. Three or four years after the cessation of hostilities was regarded as a minimum and it appeared unlikely that use of the defence power would escape successful legal challenge for this length of time. Thus, at the Premiers' Conference in August 1945 the Government proposed that Commonwealth price control should continue for a minimum of three years after the termination of the *National Security Act* on the basis of a temporary referral of power by the States to the Commonwealth as had been agreed at the Constitutional Convention in 1942. As the importance of price control during the transition and the need for uniformity was accepted, the States agreed to the proposal in principle.

But there was no discussion about the nature or future of Commonwealth control. Was the ceiling of April 1943 to be maintained, or would there be a planned increase in ceiling prices? Or should the concept of the ceiling be abandoned altogether and the method of control revert to the principles of Prices Regulation Orders 100 and 666 (a combination of cost-plus and profit control)? In 1945 such questions had still to be resolved.

Complicating the matter further were questions about the future of the wage-pegging regulations. During 1945 there developed strident demands from all sections of the labour movement for an increase in real wages and an improvement in conditions of employment generally. The war had made heavy demands on most sections of civilian employment. In the drive for greater production from a depleted work force, long periods of overtime were necessary. In many industries, and particularly in hastily-erected munitions factories, physical conditions of work had deteriorated. Industrial productivity had risen steadily but workers were prevented from sharing the benefits by the needs of national security. To be sure, there were some compensations. Despite heavy taxation the take-home pay of most workers increased appreciably because of overtime, and some received special benefits such as war loadings. Also, women workers had been able to improve their status vis-à-vis men and, with the expansion of employment opportunities for women, many families were for the first time in receipt of two wage packets. But with the disappearance during

[2] *National Security Act* No. 15 of 1946.
[3] *Digest of Decisions and Announcements*, No. 133, pp. 20-22.

1945 of national emergency conditions, employees no longer saw the need for the continuation of wage-pegging regulations which, they believed, would allow employers to exploit the position.

Although sympathetic to these demands and concerned about the effect of growing industrial turbulence on reconstruction, the Government resisted firmly trade union pressure for an immediate relaxation of wage controls. The Australasian Council of Trade Unions countered with two proposals designed to side-step the wage-pegging regulations. First, it requested the Government to use National Security Regulations to incorporate prosperity and war loadings in a new basic wage increased by an average of 6s. per week. Second, it proposed the use of the external affairs power to declare a forty-hour standard working week. Both of these were rejected on constitutional grounds,[4] but it was clear that some concessions would have to be granted in the near future to help curb industrial stoppages. Chifley declared his willingness, therefore, to support an application by the A.C.T.U. to the Arbitration Court in favour of a forty-hour week and an examination of the basic wage. Both inquiries would take some time to complete and would provide the Government with a breathing space to resolve questions about the future of its prices policy. There was no clearly defined timetable for the relaxation of wage controls, but policy was directed towards giving as much relief as possible consistent with the avoidance of uncontrolled competitive bidding for scarce labour.

The trade union movement's first priority for its members during 1945 and 1946 was relief from the grind of wartime production. More leisure in the form of increased annual leave, a greater number of national holidays and a shorter working week were the declared means to this end. (Strike action added to the amount of leisure actually enjoyed.) Increased wages were important too, but more spending money was of limited advantage while severe shortages persisted. In accordance with its undertaking to review the wage provisions of the economic organisation regulations at an early date, the Government announced the first important relaxation in March 1946. This permitted the Arbitration Court to make awards varying the standard hours of work in any industry, and also to make awards varying the basic wage.[5] In October 1945 an application had been lodged with the court by the Printing Industry Employees Union for a forty-hour week in the printing industry, but in March 1946, by the intervention of the A.C.T.U., the application was widened to a consideration of standard hours in industry generally.[6] The Government's amendment allowed the court to proceed meaningfully on the basis of a general application, and in May 1946 the Standard Hours Inquiry was eventually launched on its long and tortuous career.

The preoccupation of the unions with the forty-hour week inquiry was indicated by their failure to make an application for a revision of the

[4] *Digest of Decisions and Announcements*, No. 109, pp. 30-1.
[5] Statutory Rules 1946, No. 63, 28 Mar.
[6] *Commonwealth Arbitration Reports*, Vol. 59, pp. 583-6.

basic wage. As the Standard Hours case dragged on through the winter and spring of 1946 without any sign of an early conclusion, increasing concern was being expressed about the probable delay in determining a new basic wage. As explained by the court:

> During the hearing of claims by very many unions for the reduction of standard hours to 40 per week it became clear to the Court that a reconsideration of the amount of the basic wage was, in the public interest, a matter of increasing urgency. By the end of October . . . the application for reduction of standard hours had already occupied the Full Court for a period of over five months and it was obvious that a complete and final adjudication upon the basic wage, even if expedited so far as possible by its being combined with the further stages of the Standard Hours case, could not be effected for a very considerable time.[7]

The court interpreted the Government's partial relaxation of the wage-pegging regulations in March 1946 as a brief for an early basic wage determination as "part of the national plan of economic organisation in the early post-war period". Also, a favourable basic wage decision might help reduce the number of industrial disputes. But in fulfilling its duty

> the Court was somewhat embarrassed by the absence of any move on the part of any applicant for an increased basic wage. Of this embarrassment the Court was to some extent relieved by an application made on 30 October, 1946, by the Attorney-General . . . for the restoration to the Full Court list of certain adjourned 1940 basic wage applications. . . . This, however, did not of itself meet the urgencies of the situation because . . . the complete and final disposal of these claims would have occupied many months during which the interests of the community may have been further seriously prejudiced by delay.
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> Finally, after the Court's concern about the position had been made very plain to the parties, application was made by counsel for the Australasian Council of Trade Unions . . . for an interim basic wage declaration. . . .[8]

Once the necessary applications had been received, the Court adjourned the Standard Hours case and proceeded forthwith to the "Interim" Basic Wage Inquiry. Most of the relevant evidence was already before the court from the Standard Hours case and formality was reduced to a minimum in favour of a quick decision. After eight sitting days the court announced on 13th December an "interim" increase in the "needs" portion of the basic wage for the six capital cities of 7s. per week—a rise of 7.1 per cent in the total wage payable. No explanation was given, for the court reserved the right to re-examine all the evidence and express its final opinion at a more complete inquiry in the future.[9]

The "interim" basic wage judgment forced the Government's hand on the nature of post-war price control. Little progress had been made in the interval in securing uniform action by the States. The Tasmanian Legislative Council had not passed the necessary legislation. In Victoria legislation was passed but could not be proclaimed until the Governor-in-Council was satisfied that substantially similar legislation had been enacted by *all* other States. In Western Australia the reference of power was for

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[7] *Commonwealth Arbitration Reports*, Vol. 57, p. 604.

[8] *Commonwealth Arbitration Reports*, Vol. 57, pp. 604-5.

[9] The "interim" decision was confirmed by the Court's judgment of 1950 which, in addition, added a further £1 per week to the basic wage and established the general minimum female rate at 75 per cent of the male rate. Technically, the inquiry of 1949-50 completed the adjourned hearing of 1940.

two years only. During 1945-46 the Commonwealth maintained the prices ceiling of April 1943 by heavy expenditure on subsidies, but there was growing concern about the burden of subsidy payments.

Nevertheless, the Commonwealth made a further attempt to secure uniform action. At the Premiers' Conference in August 1946 the States agreed to resubmit the proposal to their parliaments in the form of a uniform draft prepared by the Crown Solicitor.[1] As this would take some time (and National Security Regulations were required in 1947 for other purposes), the Government took advantage of legal precedent which established that the defence power could be used "to wind up after a war to restore conditions of peace—gradually if that is thought wise . . . ".[2] Control over prices, rents, interest rates, capital issues and marketing arrangements was included in the Defence (Transitional Provisions) Bill introduced on 21st November 1946 which extended Commonwealth power until 31st December 1947.[3] But the Commonwealth was even less successful than before in securing co-operation. All the States passed legislation in the form of *Economic Stability Acts* but in a form which limited severely the period of referral.[4] The repeated failure of State parliaments to honour agreements reached at Premiers' Conferences was a major reason for the Commonwealth's attempt to achieve permanent power over rents and prices by constitutional alteration through a referendum on 29th May 1948.

In anticipation of the "interim" basic wage decision, a review of the price stabilisation policy was initiated by a Cabinet sub-committee on wages and prices and by the Prices Commissioner,[5] towards the end of 1946. Most of the issues raised in these discussions concerned the future of subsidy payments. The Government was understandably reluctant to commit additional resources to isolate increases in the prices of materials and labour. During 1946-47 price stabilisation subsidies increased to 8 per cent of Commonwealth expenditure on defence and associated services in connection with the 1939-45 war, compared with 2.4 per cent in 1944-45. Unless this commitment was reduced the Government would find it difficult to grant taxation concessions as promised. Further, in view of the uncertain future of Commonwealth price control the Government was unwilling to maintain an expensive policy which might not yield it political advantage. Finally, economists advised that it would be advantageous to allow prices to rise by up to five per cent per annum in the early post-war period. They argued that "controlled inflation" would help maintain money wages at a high level, ease difficulties associated with post-war structural change, help maintain full employment, and ease the burden of the public debt.

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[1] *Proceedings of the Conference of Commonwealth and State Ministers,* Canberra, 20 to 21 Aug 1946, pp. 8-11.

[2] *Commonwealth Law Reports,* Vol. 46, p. 464—Latham, Chief Justice.

[3] Act No. 77 of 1946. The Act was renewed in 1947 and again in 1948 to extend the use of the defence power in this way to 31 Dec 1949.

[4] The extreme case was Victoria which limited its Act to 30 Jun 1947. Only Queensland passed the Act in the agreed form.

[5] M. E. McCarthy succeeded D. B. Copland as Prices Commissioner on 31 Oct 1945.

The Cabinet sub-committee therefore decided on 12th December that no further subsidies would be paid to cover future increases in wages including the "interim" increase announced the following day. Existing wage subsidies were to be eliminated gradually, as were subsidies on minor items. Also, subsidies on other costs were not, in general, to be increased, but the Price Stabilisation Committee was to exercise its discretion in connection with basic items and there was to be no general liquidation of subsidies on these items for the time being.

Although this decision made necessary a revision of prices policy, the Government insisted that there should be no reversion to automatic price adjustment; that applications for price increases should be treated on their merits; and that industry should absorb as high a proportion of the wage increases as possible. In other words, there was to be no relaxation of profit control; profit margins established by Prices Regulation Order 666 were, in general, to be maintained. This directive placed a formidable additional burden on the Prices Branch. Since the end of the war prices administration had become increasingly complex with the multiplication of new products, and the volume of investigation involved caused frequent delay in reaching decisions. Anomalies were also common. Together with the widespread evasion of price control, this led to a great deal of public criticism of the Branch. Staff shortage and poor morale was an important part of the problem. With the cloud over Commonwealth price control, many able members of the Branch left to take up positions in "growth" departments. In common with most government departments the Prices Branch was understaffed in 1945 but, unlike most other departments, the position deteriorated further.

The staff position and the rapid post-war increase in the number of individual commodities forced the Prices Commissioner to adopt a rule-of-thumb approach. Broadly, commodities were divided into two groups: (a) those which required immediate relief from the increase in the basic wage; and (b) other commodities. Prices in the first (and smaller) group were allowed to rise by the full or a fixed lower proportion of the wage increase immediately and without prior application. For the second group industry or related commodity applications were invited by the Commissioner for rapid interim determination, subject to subsequent detailed review and investigation. Adjustment to the new system was for the most part orderly and did not result in severe general price increases. The change was assisted by the policy of considering groups of commodities together which helped to maintain established price relativities. The Commissioner was also successful in ensuring the absorption by industry of a proportion of the increase in costs. Between September 1946 and March 1947 retail prices increased by 1.7 per cent whereas the basic wage for the six capital cities increased by 10.4 per cent.

Further relaxation of price control followed closely the progressive abandonment of wages regulation. Following a conference with the A.C.T.U. and the Land Transport Group of trade unions, the Prime

Minister announced on 13th December 1946[6] a modification of control over marginal rates and war loadings. Provided that the increases in marginal rates did not exceed an amount set by a formula,[7] industrial and public employment authorities were free to take independent action to adjust rates without the need to secure the authority of the Chief Judge of the Commonwealth Arbitration Court. Where the formula was found inappropriate, authorities were required to submit the case to the Chief Judge for a determination. A review of penalty, shift and piece rates was also permitted with the authority of the Chief Judge. Finally, State industrial authorities were permitted to fix a basic or living wage on condition that the amount of any increase did not exceed any general increase in the Commonwealth basic wage.[8]

The remaining control over wage increases was removed substantially during 1947. In April industrial authorities were empowered to alter rates of any type provided only that the Chief Judge was satisfied that the alteration was not opposed to "the national interest", a change which in effect abandoned the formula provision of the previous December.[9] And then in October the need to obtain the authority of the Chief Judge was dropped;[1] the only minor restriction remaining related to over-award payments by "consent".

Price control moved in the same direction during 1947, albeit at a slower pace. With the steady increase in labour costs the Commissioner had no alternative but to adopt a cost-plus formula in most cases. Opportunities were also taken to decontrol prices as circumstances permitted, although only a narrow range of commodities was released at this stage. The approach used was to decontrol commodity by commodity on a national basis as evidence became available that illegal pricing was being eliminated and that supply would meet demand at the fixed maximum price in a free market. Thus, some agricultural products were released from control in 1946-47 following improved seasonal conditions.[2] For political reasons services supplied by State, semi-governmental and local bodies were decontrolled in May 1947.[3] More important was the accelerated phasing out of subsidies. In February wages subsidies under the clothing trades' award and female minimum rates regulations were eliminated. In May the concept of "essentiality" gave way to "eligibility" for import subsidies which reduced the number of imported items in receipt of subsidies to about twenty.[4] Most of the remaining items were in the

[6] *Digest of Decisions and Announcements*, No. 122, pp. 22-3.

[7] The formula was designed to limit the increase in margins to the deterioration in the "real" value of marginal rates since 1939 plus a proportion of war loadings. Increases in margins were therefore authorised as long as the resultant total wage did not exceed the sum of (i) the current basic wage, (ii) the marginal rate in force at the outbreak of war, (iii) a percentage of that marginal rate equal to the percentage rise in the cost of living since that date, and (iv) a fixed sum of 3s. The formula permitted a rise in margins of about thirty per cent. However, the complexity of the formula resulted in some misunderstanding which was made the occasion for further industrial stoppages.

[8] Statutory Rules 1946, No. 184, 12 Dec.

[9] Statutory Rules 1947, No. 49, 9 Apr.

[1] Statutory Rules 1947, No. 145, 8 Oct.

[2] Initially selling prices of hay, chaff, straw, oats; and growers' prices of fruit and vegetables.

[3] Prices Regulation Order 2970, 29 May.

[4] Import subsidies were suspended as from 31 Jul 1948.

clothing and textiles group. Finally, the subsidy element in the price of potatoes and tea was reduced during the year.

With the defeat of the rents and prices referendum on 29th May 1948, the Prime Minister announced immediately that the Commonwealth would relinquish control over prices within three months. At the Premiers' Conference in August arrangements were made for the transfer to be completed on 20th September. The transfer was conducted in an orderly fashion: the States agreed to adopt Commonwealth prices orders on a uniform basis; most of the staff transferred to State Prices Branches, and as much information as possible was made available to the States. Price stabilisation subsidies on all commodities except tea were suspended on 20th September.

INDICES OF RETAIL PRICES IN SEVEN COUNTRIES
(Base: 1939 = 100)

	1945	1949
Australia	123	154
Canada	118	159
New Zealand	119	136
Sweden	138	152
South Africa	132	153
United Kingdom	128	142
United States	129	171

Source: *Labour Report,* No. 39, pp. 42-3.

Even before the rents and prices referendum it had become clear that the Government's post-war incomes policy was crumbling. Before mid-1947 price rises were well within the target limit of 5 per cent per annum, but during 1947-48 the rate increased to 8.9 per cent and in 1948-49 to 9.8 per cent. To be sure, much of this inflationary pressure was outside the Government's direct control. Both export and import prices had risen sharply; uncertainty about the future of Commonwealth control hampered the formation of a coherent policy and the enforcement of existing controls; the mood of the community favoured rapid decontrol; and trade union militancy forced earlier relaxation of wage controls than would otherwise have been sanctioned. Further, the rapid liquidation of price stabilisation subsidies during 1947 and 1948 added appreciably to the upward pressure on costs—both directly and through automatic wage adjustments.

Even though prices and wages policy disintegrated in 1947 and 1948, the primary objectives were generally attained. Australian prices moved broadly in line with those in most other advanced countries in the post-war period and, given the general level of international price inflation, it is unlikely that the country's price level vis-à-vis the rest of the world could have been altered appreciably even without the constitutional

barriers. In spite of the hazards of international comparison of this type, it would appear that wartime and post-war control succeeded in preventing deterioration in Australia's international competitive position. This was in marked contrast to the situation after the war of 1914-18.

The Government was able to exercise greater caution in the abolition of consumer rationing. The ration scale for most items was not greatly below normal consumption, and the continuation of rationing for several years after the war helped to maintain reasonable equity in the distribution of items in short supply. Further, there was strong pressure from the United Kingdom to continue rationing tea, butter and meat until world production of these commodities was able to meet demand.

After the war there was no strong case for the continuation of sugar rationing. The scale of one pound per head per week did not limit consumption by a significant amount and thus did not make more available for export. When the validity of this proposition had been tested over two export seasons, rationing was dropped in July 1947.

The case of clothing was more complex. As described earlier, materials for the production of woollens and worsteds were in adequate supply although labour shortage restricted the quantities and styles that were available; cotton and rayon materials were in very short supply. Accordingly, substantial relaxation of the scale was introduced in November 1945. Footwear, headwear, knitted underwear, knitted outerwear, hosiery and many minor items such as men's collars were removed from the scale; piecegoods and clothing made of wool were given reduced ratings. As these changes represented a reduction of about one-half in clothing items covered by rationing, the currency of coupons was extended from six to thirteen and a half months. But there was no change in the ratings for cotton and rayon piecegoods. In 1946 and 1947 the world-wide cotton shortage was aggravated by the dollar crisis, for cottons were only available in quantity from the United States. By 1948 cotton goods were still in short supply but supplies of other items were satisfactory. As it was impractical to continue rationing of one clothing category only, all clothes rationing was abandoned in June 1948.

Meat and butter rationing were continued well beyond the end of the war so as to limit the growth of domestic consumption and encourage exports to the United Kingdom. Meat rationing was even more extensively evaded after the war than before, and it is unlikely that increased exports were achieved by this means. Meat rationing was abolished in June 1948. Because of the very slow post-war recovery in the dairy industry, rationing of butter was continued until June 1950. In 1947-48 consumption averaged 24.7 pounds per head per year compared with 32.6 pounds in 1938-39, yet exports were still 19 per cent below their immediate pre-war level. Butter was the commodity with easily the strongest case for the post-war continuation of rationing.

By contrast, tea rationing was retained until July 1950 for reasons advanced by the United Kingdom. The Rationing Commission proposed abolition in May 1945, but there were strong objections from London.



"REVOCATION OF CONTROLS."

"Here's your claes and trappings, Santa Claus! Now, ye auld capeetalist, go awa wi' the rest of the capeetalists and perfo-r-rm meeracles!"

Scorfield in Bulletin *(Sydney) 22 Aug 1945.*

Dedman, whose department of War Organisation of Industry had introduced many of the controls, was born in Scotland.

While Australia enjoyed a level of supply which was adequate to meet a generous ration, other countries were not in such a fortunate position. If tea rationing was eliminated these supplies could no longer be guaranteed. The Government continued to toe this line until after the lapse of National Security Regulations. But it did so for the additional reason that abolition of rationing would have made necessary the withdrawal of the price stabilisation subsidy which would have produced a significant rise in the consumer price index.[5]

Capital issues control suffered a fate similar to price control. As with prices and rents, the Commonwealth invited the States to refer power in August 1946, but the lack of uniformity in State legislation negated the conference decision. Thus, the Commonwealth continued to exercise control under its defence power.

Control was relaxed more rapidly than in the case of prices and rents. Despite the stress on capital issues control before the end of the war as a key instrument of post-war planning, there was little attempt to direct investment into "socially desirable" avenues. Some proposed issues which were regarded as objectionable either because of an unsound financial structure or because they were blatantly fly-by-night were discouraged, but resource management along wartime lines was not an objective. Rather, capital issues control retreated into a mild form of financial management. Its purposes were to support price control; to strengthen central bank quantitative and qualitative control of bank lending; and to enforce the direct control of non-bank interest rates. In practice, the control of mortgage lending rates and the rates on securities such as preference shares became the primary post-war function of the Capital Issues Advisory Committee.

At the end of the war the regulations were eased to the extent that registration of new companies with a nominal capital up to £10,000 was permitted without approval, and also an increase in the nominal or issued capital of a company up to £10,000 in any period of twelve months.[6] This led to some evasion by the registration of a number of small companies under common control and for the same purpose, but the difficulty of access to the market for small companies was such that the evasion was not regarded as a matter of serious concern.

At the same time an attempt was made to regulate the flow of new issues so as to avoid undue strain on the market. Companies intending to raise relatively large amounts—in excess of £50,000—were invited to submit their applications as far ahead as possible and establish their place in the queue. By this means Capital Issues was able in a limited way to regulate the timing of market approaches. In the scrip hungry post-war market, there was no real risk of over-supply; but the control of timing did help to clear the way for the Government's major loan operations.

[5] The open market price of tea had risen rapidly since the end of the war. In Mar 1947, for example, the Australian price was set at 2s. 9d. per pound, but it was estimated that, in the absence of subsidies, the retail price would have risen to between 6s. and 7s. per pound.

[6] Statutory Rules 1945, No. 133, 20 Aug.

Control was eased further at the end of 1946 by increasing to £25,000 the amount of capital which could be raised in any period of two years. The borrowing limit was raised to £5,000 per annum for companies or individuals, and £5,000 was also the new limit for the acceptance of a deposit or unsecured loan.[7] By 1947 approvals were more or less granted automatically, Capital Issues checking mainly to see that interest rates on mortgages and other fixed-interest securities were within the regulations. (At the beginning of 1947 the maximum mortgage rate was lowered from 4¾ to 4½ per cent in line with a general reduction in interest rates.) The easing of control was in part a response to growing concern about the threat of legal action. A challenge to the regulations had been avoided, but only by approving applications of several companies who threatened to file a writ unless a satisfactory verdict was obtained. Indeed, control had become so loose that the Commonwealth Bank complained that it was receiving inadequate support for advance control, and that far too much capital was being raised for production of consumer durables.

Apart from interest rates, the main concern of Capital Issues in 1947 was to ensure that new shares were issued at a premium if the market value of old shares was well above par value. In October 1946 the Prime Minister issued a statement which in effect allowed the issue of new shares at par even though market valuation was much higher. However, the result of the announcement of a par issue in these circumstances was that a minor bull market developed in the shares in question and Chifley's old prejudice against speculation was resurrected. The expedient that was adopted was to insist that, as a condition of approval, new issues should carry a premium equivalent to about two-thirds of the difference between the par and market value.[8] For the same reason bonus share issues were not approved unless examination revealed that proposed issues were based on a genuine increase in asset valuation. After 1947 the premium that was required was gradually reduced to one-half then one-third of the difference between the par and market value. The stipulation was dropped in July 1949 because of a weakening in the investment market.[9]

While control of prices, rents, land sales and building materials had reverted to the States by the end of 1948, the Commonwealth decided to retain capital issues control under the defence power. In addition to the established reasons, the Treasury supported continuance as a supplement to exchange and import control. In view of the dollar shortage, it was deemed "desirable to encourage capital investment in production of goods which will lessen demand for dollars, and to discourage expansion

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[7] Statutory Rules 1946, No. 193, 19 Dec. The previous mortgage limit was £1,500.

[8] The formula adopted to determine the premium that should be imposed was

$$\frac{M}{1.5 + \frac{1}{2}R}$$

where M = current market premium on shares;
R = ratio of the number of ordinary shares to be issued to the number of ordinary shares already issued.

[9] By 1949 the effect of an announcement of a new share issue was to cause a fall in the price of the shares in question. As an anti-speculative device, the premium stipulation had served its purpose.

of companies whose activities involve a demand for hard currencies".[1] But the threat of legal challenge to the regulations was such in 1948 and 1949 that control was for the most part nominal. As was admitted freely at the time, the main effect was to discourage a few undesirable issues. Another was to limit severely the number of new preference share issues. On 13th January 1950 the Menzies Government announced that it intended to relinquish capital issues control, and applications were approved automatically thereafter.[2]

More than any of the other "White Paper controls", the future of land sales control occupied the time and intellectual energy of the Government. Between 1944 and 1947 the matter was under review by a Cabinet sub-committee, the Rural Reconstruction Commission, a committee of Commonwealth and State officers, an inter-departmental committee, the almost defunct Financial and Economic Committee, and the Premiers' Conference. There was unanimity that the control of land values should continue for an indefinite period after the war. In particular, it was agreed that the increase in rural land value should be contained so as to prevent over-capitalisation and excessive indebtedness, and to limit the cost to government of the acquisition of agricultural land for settlement by ex-servicemen. But there was no satisfactory solution to the problem of how values could be controlled after the war.

The unsatisfactory nature of the wartime method of control based on February 1942 values was acknowledged, mainly because effective enforcement was impossible and because of the arbitrary dating of the official price freeze. In 1946 it was estimated that actual prices were from fifteen to twenty per cent above permitted values, and the simplest solution appeared to be to allow an official rise of about this proportion. But there were complications. Several States were tied to 1942 values for the purpose of acquiring land for soldier settlement. More important, it was believed that a rise of this amount would still not meet the market: a black market would persist because of the strength of the demand for both urban and rural real property. And if a serious attempt was made to lift official values to clear the market, substantial overcapitalisation would result. The Rural Reconstruction Commission recommended the creation of a Land Valuation Service in each State and Territory in association with the continuation of land sales control for at least five years after the war,[3] but this depended on the co-operation of the States (or a constitutional amendment). L. F. Giblin, returning to ideas he had advanced in 1942, proposed the imposition of a stiff capital gains tax combined with compulsory resumption of land assessed to be inflated in value. Again, only the States had the power of compulsory resumption.

Given these constraints, the Treasurer decided to retain the 1942 system despite all its deficiencies so as to keep values as low as possible.

[1] Treasury memorandum, 30 Aug 1948.

[2] Capital issues control was re-imposed on 1 Feb 1951, but the long-expected legal challenge forced final abandonment in mid-1951.

[3] Ninth Report, para 2067.

The regulations were eased in December 1946 to the extent that the Treasurer's power to refuse consent was confined to (a) the price limitation, (b) the £5,000 borrowing limitation and (c) the restriction on the maximum rate of interest payable.[4] In practice, permission was not refused so long as prices came within about twenty per cent of 1942 values. Further attempts were made to curb "excessive" black marketing,[5] but there is little evidence to suggest that the attempt was successful.[6]

As during the war, it is likely that the immediate post-war retention of land sales control helped to some extent to reduce the inflation of values between 1945 and 1948. If, as was claimed at the time, prices were on average twenty (or even twenty-five) per cent above those of 1942, the increase was not greatly out of line with the change in the capacity of primary producers and home-purchasers to service the larger debt that was involved. For February 1942 prices were heavily depressed because of the invasion threat, particularly in the urban areas of the eastern seaboard. Pre-1949 purchasers received some benefit, therefore, from the combination of price control and low interest rates.

But the benefits of the policy were eroded by the inability of the Commonwealth to retain control for any length of time. As all authorities acknowledged, the threat of overcapitalisation would probably persist for a long period after the war and the temporary Commonwealth power conferred by the National Security Regulations would be totally inadequate for the purpose. The Premiers in August 1946 expressed their support in principle for the continuation of control,[7] but at the same time exhibited a marked disinclination to assume responsibility for a difficult, expensive and generally unpopular measure. In the case of land, uniform action by the States was not essential (although desirable), but the Commonwealth was sufficiently sceptical of the reliability of State parliaments to incorporate control of land prices in the prices and rents referendum of May 1948. With the rejection of the referendum proposals, land sales control reverted to the States in September 1948. Most of the States adopted the Commonwealth's price control provisions but without the restrictions on borrowing and interest rates. However, the Commonwealth's scepticism was justified for, with few exceptions, the States abandoned control in 1949.

The chronic shortage of housing, hospitals, schools and public buildings of all types in 1945 made necessary the continuation of control on essential building materials. Materials of all types were very scarce at the end of

[4] Statutory Rules 1946, No. 192, 19 Dec.

[5] Mainly by requiring that the details of any options taken over land be declared at the time applications to purchase were made, and by permitting those who had paid black market prices to sue for the recovery of the excess.

[6] Symptomatic of continued widespread evasion in 1947 were allegations about irregularities in the conduct of the Land Sales Control Office, Sydney, which led to the appointment of a Royal Commission. The commission revealed the extent to which certain real estate agents were prepared to go to subvert the regulations. The commission's report is not bound in parliamentary papers, but the substance is recorded in *Commonwealth Debates*, Vol. 192, pp. 2897-901, 3573-4.

[7] *Proceedings of the Conference of Commonwealth and State Ministers*, Canberra, 20 to 21 Aug 1946, pp. 5-8.

the war, especially timber—much of which had to be imported—corrugated iron, and roofing tiles. Unless materials control was used to support the schedules of building priorities established by the Department of Post-War Reconstruction, the housing and other construction programmes were likely to disintegrate.

The control of materials was difficult enough in wartime, and worked reasonably well only because of the co-operation of leading manufacturers. In peacetime the problems were likely to be far greater, and the assistance of manufacturers could no longer be relied upon. In brief, effective control depended on an immense amount of detailed technical and commercial knowledge on a regional basis, and there were serious impediments to control being exercised after the war by a central authority. There were, fundamentally, two functions for any post-war control authority. First, the available supply of materials should be directed to high priority projects. Second, materials should be distributed so as to ensure that all regions received a fair share of available supply. The second task arose because production of some materials was concentrated in one or two States, for example corrugated iron (New South Wales) and plywood (Queensland and northern New South Wales). Unless special control measures were adopted, supply of materials in this category was likely to be concentrated geographically in the manufacturer's own region. As an extreme case, there would be no profit incentive for Broken Hill Proprietary Co. Ltd to ship corrugated iron and structural steel to Western Australia when it could sell all it could produce in Sydney and Newcastle.

Again, a majority of the States were willing to allow the Commonwealth to retain control, but Dedman made clear at the Premiers' Conference in August 1945 that the Government was only prepared to do so on two conditions: first, that all Premiers were unanimous and, second, that the States share in the administrative responsibility. What was clear at the conference was that the Commonwealth was not willing to bear the full political cost of a policy designed to assist State housing and construction programmes.[8] There were also sound practical reasons for involving State administrations in the details under post-war conditions for, as noted, local knowledge of supply conditions was essential.

Since Playford, the Premier of South Australia, rejected continued uniform control and the States as a whole were not willing to share responsibility jointly, Dedman found himself in the position of insisting that control must revert to the States. The Commonwealth was prepared to continue control of those materials produced in one or two States, but this was the only function it would perform. The result probably surprised even Dedman who overplayed his hand and forced a decision contrary to the intention of his departmental advisers. The Department of Post-War Reconstruction had been angling for the establishment of a joint Commonwealth-State authority, and they were aghast at the prospective chaos of individual State action. Subsequent control was indeed chaotic

[8] *Proceedings of the Conference of Commonwealth and State Ministers,* Canberra, 20 to 23 Aug 1945, pp. 49-54.

with the States responsible for such materials as bricks, cement, plaster and tiles and the Commonwealth for timber, baths, sinks, pipes and other metal products. Of course the problem of control was aggravated by the persistent chronic shortage of most materials, but it was made much more difficult by the idiosyncrasies of the federal system. Commonwealth control over a diminishing range of building materials was retained until 1949.

A large proportion of the National Security Regulations which were retained during the post-war period related to the acquisition and marketing of primary products. During the war the shortage of food, raw materials, and shipping had made necessary Commonwealth control of practically all primary commodities, and the adaptation of the various schemes to post-war conditions was a task of major proportions.

A full account of all the expedients that were adopted would occupy a separate volume. The following *précis* attempts no more than a general outline of the transition problem.

Control was required during the transition for three basic reasons. First, certain guarantees had been given to growers to stabilise incomes and encourage production for war purposes. In the case of wheat, for example, compulsory acquisition had been associated with the payment of a fixed price and farmers had arranged their sowings for the 1945-46 crop on the assumption that the stabilisation scheme would continue. Clearly, the Government had to honour its obligation for the 1945-46 crop and probably for a year or two thereafter until a permanent scheme was finalised. Second, high world prices of some commodities required the retention of acquisition to support export control and price control. The world price of leather and hides, for example, was much higher than the domestic price and control was required to prevent the Australian market from being denuded. Third, the shortage of shipping reinforced the need for Government acquisition and marketing of a large number of commodities. The extreme case was apples and pears which depended on what was in 1945-46 a very rare service—refrigerated transportation. The Apple and Pear Marketing Board was likely to be needed, therefore, for a number of years after the war.

All the acquisition and marketing schemes depended on the defence power. The Commonwealth could control export marketing and the payment of export subsidies in peacetime, but Section 92 of the Constitution prevented any interference with the freedom of interstate trade, and hence any unilateral action by the Commonwealth in the area of acquisition and domestic marketing. Once again, joint Commonwealth-State co-operation was mandatory failing a constitutional amendment.

The subsequent course of events was a near carbon copy of a now familiar story. Taking the wheat industry as the prime example, the Commonwealth attempted initially to secure uniform action; in January 1946 an undertaking was secured from the Premiers to establish by common legislation a permanent wheat marketing organisation which would incorporate the essential features of wartime acquisition and stabilisation.

The Government proceeded with its Wheat Industry Stabilisation Bill in 1946, but a number of State parliaments failed to accept the details—mainly the provision relating to the control of production. In September 1946 the Government failed in its attempt to alter Section 92 by referendum to permit Commonwealth power over marketing, and in 1947 the Australian Agricultural Council resumed intensive negotiations to secure joint action before the expiration of the defence power. Eventually a rare measure of agreement was obtained (in July 1948) and uniform legislation was passed by all parliaments by the end of 1948. But the price was high. The Commonwealth agreed to drop output control from the plan, and to include automatic adjustment of the guaranteed price by means of a cost of production index. The only *quid pro quo* it obtained was an undertaking by the States to restrict production in marginal areas, but in substance the Commonwealth surrendered its authority over its financial commitment to the industry.

The Government also managed in 1948 to secure uniform legislation for the retention of the Australian Hide and Leather Industries Board in its wartime role,[9] but other special marketing authorities lapsed or were reduced in status. There were two main lines of development based on the relative importance of export markets for particular commodities. For those commodities with large overseas sales, the Commonwealth usually substituted permanent legislation for those parts of the regulations dealing with export marketing. Thus, at the end of 1946 the *Meat Export Control Act* replaced the wartime scheme, and at the end of 1947 the Australian Egg Board was reconstituted by means of the *Egg Export Control Act* to administer the long-term contract for egg sales to the United Kingdom. Similarly, the Australian Dairy Produce Board was reconstituted in 1947 to deal with all export matters. However, the Australian Rabbit Skins Board was abandoned in April 1949 because the steep fall in the price of skins obviated the need for export control.

By contrast, marketing control of those commodities with minor overseas sales reverted to State authorities or lapsed. The Commonwealth ceased to acquire barley after the 1947-48 crop. Acquisition was continued by two States—Victoria and South Australia—which operated jointly a restricted form of the Australian Barley Board. Potato marketing under National Security Regulations ceased at the end of 1948 and responsibility was assumed by separate State boards. Finally and again at the end of 1948, the Australian Tobacco Board suspended operations and marketing by open auction was restored.

Given the limitation on the use of the defence power and the endemic shadow sparring between the Commonwealth and the States, it was inevitable that the relaxation of the key economic controls should have been random and unrelated to economic criteria. As noted, the critical question of timing was determined by the unpredictable outcome of Premiers' Conferences or decisions of State parliaments. The most serious

[9] The board commenced operations at the beginning of 1949.

casualty of Commonwealth-State interaction was control of building materials. Even allowing for the depleted state of the building industry in 1945, divided control had a disruptive effect on its restoration and retarded improvement in efficiency. By grace of the High Court, the other "White Paper controls" were retained for a sufficient period to serve their primary purpose in a rough and ready fashion. As outlined, price inflation was kept within reasonable limits, and even the rise in land prices was restrained to some degree. Not much was attempted in terms of investment allocation, but interest rates were kept at a low level. And arrangements were made for the marketing of the more important primary products. No doubt an additional period of price control would have helped moderate the growing instability of the late 'forties and early 'fifties, but the central fact is that, with the assistance of the unexpectedly rapid growth of world trade, unemployment did not exceed two per cent of the work force at any stage between 1945 and 1949.

DISPOSAL

Related to the unwinding of the war economy was the question of the disposal of a very large quantity of surplus defence equipment and materials. The method and timing of disposal was of importance in two related ways. First, some items—motor vehicles, clothing, food, machine tools and temporary housing—could be inserted into the civilian economy without much delay, to relieve severe shortages. The sooner these releases were made, the greater the contribution to smoothing the transitional period. Second, disposal had implications for post-war full employment. Unco-ordinated dumping of war assets at a late stage of the transition could threaten employment in a number of key industries, an additional reason for preparing disposal procedures well before the end of the war.

On the initiative of the Board of Business Administration in the Defence Division of Treasury, an early start was in fact made. As a result of the depression of munitions production in 1943, a Controller of Liquidation within the Department of Munitions was appointed and joined the Commonwealth Salvage Commission[1] and a number of other small government units dealing with disposal. To integrate the activities of these various groups and to lay down firm policy guidelines, the War Cabinet authorised the appointment of a specialist disposals authority and a ministerial subcommittee in November 1943.[2] The outcome was the appointment of the Commonwealth Disposals Commission which commenced operations in September 1944.[3]

The basic rules of disposal were laid down by the ministerial subcommittee before the commission commenced operations. The first of these was that existing warehouse facilities were to be used and that there

[1] This commission was established in Jul 1943 with P. L. Coleman as chairman and chief executive to strengthen the work of voluntary organisations in the collection and recycling of such materials as waste paper, rag, wool grease and scrap rubber.

[2] War Cabinet Minute 3183, 24 Nov 1943.

[3] Statutory Rules 1944, No. 87, 2 Jun, as amended by No. 136, 13 Sep. A. V. Smith, Secretary, Department of Supply and Shipping, was the commission's first chairman, but was replaced by G. T. Chippindall in 1945. G. A. Davis and W. Howie were successively general managers.

was to be no physical transfer of goods until after sale. Physical control would remain with those authorities which declared the surplus, a sensible decision based on the need to conserve transport, manpower, and warehouse space. The commission was authorised to approach departments to expedite the declaration of surpluses, but the final decision rested with the holding authority. Surpluses were offered first to other Commonwealth and State departments (including semi-governmental instrumentalities) and then to the public. The reason for this was partly financial but mainly to reduce public authority demand at an early stage of the transition and at a time when productive resources would be fully taxed. Sales were to be made whenever possible through established trade channels, or by public auction or tender at "fair market prices" determined in association with the Prices Commissioner. All sales were to be made on an "as is, where is" basis and for cash. A few special priorities were established. Primary producers were to be given preference in the disposal of motor vehicles; on the sponsorship of the Department of Post-War Reconstruction, certain types of equipment such as machine tools were to be allocated to ex-servicemen and to technical colleges involved in reconstruction training. Special consideration was to be given to the needs of overseas relief organisations and the Red Cross, as well as local hospitals and charitable organisations.

Although the definition of policy and the appointment of the commission in 1944 enabled an early start to be made, further progress was hindered by the active opposition of the Commander-in-Chief. In a series of minutes to the Minister for the Army,[4] Blamey objected strenuously to most of the rules that had been laid down by the ministerial sub-committee. Smarting under the reduction in Army strength, he complained in particular about the retention of physical control by holding authorities. To relieve Army personnel from the responsibility of guarding and accounting for surplus stores, Blamey proposed, unrealistically, that centralised disposals agencies be established in capital cities staffed by people responsible to the commission. The nub of the matter was that the Commander-in-Chief rejected preparations for disposal as premature, especially the release of stores to ease civilian shortages. His disclaimer of 3rd November 1944 was as unconvincing as it was revealing:

> It will, of course, be understood that . . . I am not unsympathetic to the Government's desire to provide immediate relief for essential primary and secondary industries and, at the same time, to secure to the Commonwealth the best financial results. But it is clear that the time has not yet been reached when we can afford to divert more military personnel from the Amy's primary task or to imperil our scientifically planned maintenance system by releases to relieve civilian needs.

Blamey was reacting, too, to a War Cabinet direction of July 1944 for a survey of all stocks to be made together with an indication of surpluses available for disposal.[5] Even though there was a trend in both the United States and the United Kingdom to shorten stocks in 1944 to lessen the

[4] Dated 24 and 25 Oct, 3 Nov 1944.
[5] War Cabinet Minute 3668, 22 Jul 1944.

post-war disposal problem, the Australian Army claimed that the definition of "excess or surplus" stores was impossible while the war continued, Blamey adding, fancifully, that the stock position should be maintained because of probable Australian operations in China, Japan or other temperate or cold climates after the defeat of Germany.[6]

Although the Army's position was roundly condemned by the Acting Minister for the Army,[7] Blamey did succeed in delaying the preparatory work of the commission. The R.A.A.F. and R.A.N. made some attempt to comply with the instruction to survey surplus stocks,[8] but the Army maintained that accurate lists could not be drawn up until after the post-war strength of the Services was established.[9] Negotiations dragged on during the first half of 1945 but very little real progress was made. In July 1945 a compromise was achieved whereby stocklists were to be prepared of items in short civilian supply, and sales of these were to be arranged;[1] but the collapse of Japan a few weeks later made the compromise plan redundant. The result was that disposal sales for the period September 1944 to June 1945 amounted to a moderate £7,979,000 (mainly army vehicles in poor condition, clothing and apparel). The contribution to relieving civilian shortage was insignificant.

The Disposals Commission was successful, however, in disposing of surpluses fairly quickly after the war. Early preference was given to consumer goods and those industrial raw materials which could be used immediately by manufacturers. Sales of motor vehicles grew rapidly to average 1,000 a month in 1946. Given the heavy demand for vehicles of all types, there was some dissatisfaction with the method of distribution and the system of priorities established. Most vehicles were sold to the large distributors and repaired by them before subsequent resale. Until 1947 priorities were determined along wartime lines in association with the Department of Transport, and retail prices were determined by rules laid down by the Prices Commissioner. Understandably, small distributors complained about their lack of participation; but it was clearly desirable to restrict the number of distributors involved so as to retain some control over prices and the quality of repair work. There were complaints, too, of the high priority given to primary producers. Of the 100,627 vehicles sold by the commission, seventy per cent were allocated to the rural sector —partly because a large proportion of the vehicles were more suitable for use in rural areas, and partly as recognition of the particularly severe transport problem in these areas. Given the gap between market and ceiling prices for vehicles of all types, breaches of the prices regulations and other irregularities were common. But by channelling the bulk of sales through the large distributors, these appear to have been kept within bounds.

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[6] Minute to F. M. Forde, 31 Jan 1945.
[7] Senator J. M. Fraser.
[8] War Cabinet Agendum 189/1945 contains the RAAF survey; Agendum 270/1945 the RAN survey.
[9] War Cabinet Minute 4194, 22 May 1945; Agendum 209/1945.
[1] Production Executive Agendum 82/1945, 27 Jul.

COMMONWEALTH DISPOSALS COMMISSION — SALES
(£'000)

	1944-45	1945-46	1946-47	1947-48	1948-49	Total
1. Crude materials	167	288	350	55	4	864
2. Basic materials and products	3,312	12,896	10,309	6,951	2,140	35,658
3. End products	4,499	23,959	31,411	14,021	5,676	80,068
4. Unclassified	—	2,232	11,009	3,770	1,377	18,599
5. Total	7,979	39,375	53,080	24,797	9,197	135,189

Note: Detail may not add because of rounding. The difference between the totals for each group and yearly group figures is accounted for by sales in July 1949, the last month of the commission's existence.

The main components of the groups are as follows: 1—metallic ores and concentrates, crude vegetable products, and vegetable fibres; 2—basic textiles, non-ferrous metals, iron and steel, chemicals, and prefabricated metal products; 3—motor vehicles and cycles, real property, metal working machinery, finished textile products and footwear, food, small watercraft and marine engines, and agricultural machinery.

Source: *Fifth and Final Report, Commonwealth Disposals Commission,* 1949.

Most other consumer goods with civilian end-uses were disposed of quickly. Notable examples were clothing, fabrics, and footwear. Very large stocks of manufactured textiles were held at the end of the war, and during its life the commission sold 11,000,000 yards of khaki and green drill, the same amount of canvas and cotton duck, and 6,000,000 yards of "desouttie"[2] together with large quantities of shirting material, serge, flannelette and more specialised fabrics. For civilian purposes these fabrics—and the footwear that was released—had their limitations; but they did make an important contribution to clothing supply in 1946 and 1947. More specialised industrial clothing and some types of heavy footwear for which a limited domestic demand existed were sold on the export market. Other items to make important contributions in the early years were prefabricated housing, industrial machinery (including machine tools), heavy construction equipment, and tractors. Although reasonably large stocks of food were held, a high proportion was dehydrated meat and vegetables with a limited domestic demand. Most of these stocks were either exported or made available to U.N.R.R.A.

The commission's most difficult task was the disposal of stores left behind in Papua and New Guinea. With the rapid withdrawal of troops from the territory, inadequate provision was made for the collection and storage of Army supplies. Pilfering was rife among servicemen, indigenous people, and organised crews of salvage pirates. Rapid jungle growth and tropical humidity also claimed a large quantity of the stores which had been abandoned by the Army. In its race against the jungle and the pilferers, the commission abandoned its usual policy and took physical

[2] Hand-woven cotton cloth made in India, used mainly as cheap lining for suits, pockets, etc. Rarely if ever used now. The term could be a corruption of "dhootie"—the Indian loin cloth.

possession of the surpluses and arranged on-the-spot auction sales as rapidly as possible. By the end of 1946 the commission had cleared stocks in its possession, frequently at bargain prices; but it is clear from the profitable activities of privateers as late as 1948 and 1949 that a great deal of material had been missed.

Disposal of specialised military equipment presented problems of a different kind. There was no alternative to the destruction of vast quantities of high explosive, ammunition, mines, bombs and the like after the salvage of metal components for scrap. Some aircraft were sold to New Zealand, but in view of the world-wide glut most combat aircraft had no resale value. Tiger Moths and Wirraways were sold to amateur aviators and the Department of Civil Aviation absorbed most of the aeronautical equipment; but Beauforts, Beaufighters and Mosquitos were scrapped and engines stripped for spare parts. Hulls were occasionally used for temporary homes and caravans. As a curiosity, the slipstream from a running aero-engine was used for frost control on one vineyard in the Hunter Valley. The demand for tanks and Bren-gun carriers was found to be greater than expected because of the shortage of tractors, and in rural areas sales were made readily for heavy traction duty such as timber hauling, earth moving and ploughing. The heavy stocks of pontoons and landing equipment had little more than scrap value after the war, but there was a steady demand for small craft and ships by fishermen, harbour authorities and those in the tourist trade. A number of corvettes were sold to Chinese interests for conversion to the passenger trade.

The peak of the commission's activity was reached in 1946 and 1947 and during these years it was probably the largest commercial organisation in the Commonwealth. The principles established in 1944 were firmly adhered to throughout, and most sales were made at public auction or by tender. The commission was assisted by numerous trade panels, and responsibility was delegated as far as possible. For example, the Department of Supply and Shipping handled the disposal of clothing and footwear, and the Department of the Navy small craft. Given the size of the organisation and the extent of the commercial pressures that were exerted, malefaction was inevitable. Dealers in second-hand clothing, motor vehicles and scrap metal had a field day. In general, however, stocks were cleared efficiently and rapidly, and there was no significant disruption to normal commerce. After 1947 the volume of sales declined sharply and the commission was terminated in July 1949 after which remaining disposals functions were assumed by the Department of Supply and Development.

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